



STATE OF MICHIGAN

JENNIFER M. GRANHOLM  
GOVERNOR

MICHIGAN STATE HOUSING DEVELOPMENT AUTHORITY  
LANSING

MICHAEL R. DEVOS  
EXECUTIVE DIRECTOR

September 11, 2007

To: Interested Persons

From: John L. Peterson, Acting Director  
Multifamily Development & Construction

RE: Changes in Multifamily Lending Parameters

Attached are updated drafts of MSHDA's direct lending program parameters. They are similar to documents distributed earlier this summer, and discussed with representatives of the development community at meetings held June 15, 2007 and June 28, 2007. Key changes are summarized in the June 26, 2007 memo from Marjorie Green.

For the most part the parameter changes create greater consistency between programs, or clarify existing program requirements. Two more significant revisions to the documents are:

- The changes detailed separately in Marjorie's June 26, 2007 memo regarding Market Analysis have been incorporated within each program's parameters.
- The MSHDA HOME Team Advantage Targeting Criteria checklist will no longer be used. Criteria not already included in the Site Selection Criteria Guidelines have been incorporated into the program parameters.

Additional questions or comments regarding these attachments should be submitted to my office by September 20, 2007.



MSHDA-28A 01/04

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**TEAM Tax-Exempt Lending Parameters**  
(Non-preservation)



April 26, 2006 **September 26, 2007**

MSHDA offers tax-exempt loans for the development of affordable rental housing. Loans will be provided to the extent the following objectives are met:

1. Create affordable **RENTAL** housing, achieving at least one of the following public benefits:
  - Family units serving a proportion of low income households, or
  - Senior housing, including proposals supporting successful aging in place, or
  - **HOUSING IN Rural housing COMMUNITIES**, or
  - Supportive housing integrated and supported by necessary services, or
  - Workforce housing provided in high-cost areas, or
  - Mixed use buildings supporting downtown housing, or
  - **MEETS THE NEEDS OF** Native American housing needs are addressed.
2. The housing must contribute to the strengthening of communities through site and design standards.
3. The **LONGEST** term of affordability **POSSIBLE**. ~~must be at least 35 years.~~
4. The loan must be a long-term earning asset.

These parameters describe lending available for new construction, substantial rehabilitation/adaptive reuse and the acquisition and rehabilitation of conventionally financed rental housing. Combined construction and permanent lending is provided and MSHDA retains long-term portfolio oversight. Project requirements, interest rates, and gap funding vary by location of the property, population to be served, income targeting, and resource availability.

**I. Eligibility and Resource Availability:**

- A. **Project Size:** Typical projects range between 24-150 units, with exceptions considered for rehabilitation projects.
- B. **Ineligible Projects:** Nursing homes, adult foster care homes, student housing, transient housing, or single room occupancy.
- ~~C. **Income Restrictions:** At a minimum, either 20% of the units must be income and rent restricted to households whose incomes do not exceed 50% of area median income or 40% of the units must be income and rent restricted to households whose incomes do not exceed 60% of area median income.~~
- C. **D. Eligible Borrowers:** A sponsor/developer may be a nonprofit, an individual, a group of individuals, a corporate entity, or some combination. **PRIOR TO MORTGAGE LOAN COMMITMENT** However, a legal entity must be formed that is an "eligible borrower" under the Authority's Act ~~prior to mortgage loan commitment.~~
- D. **MINIMUM REHAB: FOR ACQUISITION/REHAB PROPOSALS, AT LEAST \$10,000 IN REHAB/UNIT AND 15% OF ACQUISITION COST REQUIRED, WITH EMPHASIS ON**

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**IMPROVEMENTS BENEFITING RESIDENTS (CAPITAL NEEDS ASSESSMENT REQUIRED)**

- E. **Tax-Exempt Eligibility:** Proposed tax exempt financing must equal at least 51% of the total development cost and **REHABILITATION EXPENDITURES WITH RESPECT TO EACH BUILDING, WHICH MUST EQUAL OR EXCEED 15 PERCENT OF THE PORTION OF THE COST OF ACQUIRING SUCH BUILDING (AND EQUIPMENT). PARTICIPATION IN THE HOUSING TAX CREDIT PROGRAM IS REQUIRED AND UNDERWRITING STANDARDS OF THE QUALIFIED ALLOCATION PLAN WILL APPLY.**
- F. **Michigan Green Communities Grant:** A grant of \$1,000 per affordable unit, up to a maximum of \$50,000 **PER PROJECT**, is available from MSHDA for developments meeting the Michigan Green Communities criteria. The Enterprise Foundation will match funds and a \$3,000 grant is provided for administrative reporting.
- ~~G. **HOME TEAM Advantage Loans:** This program combines tax exempt financing and federal HOME funds to encourage rental housing development in communities in non-urban areas of the state. Current targeting and HOME loan criteria will continue for this rural housing program.~~
- G. ~~H. **Other HOME Loans:**~~ A HOME loan may be available at 3% simple interest for gap funding for:
- Small-scale development (less than 48 **50** units)
  - Very low-income family housing units in urban areas (minimum of 10% of project),
  - Integrated supportive housing units,
  - ~~Marquis or signature~~ **NEW ECONOMY**/Downtown housing developments,
  - Native American housing,
  - Workforce housing in high-cost, growth areas.

The minimum amount of HOME assistance will be \$1,000 per **HOME-ASSISTED** unit. The maximum amount of HOME assistance will not exceed the lesser of (1) the equity gap as determined by MSHDA or (2) \$25,000 per unit in the development. **MSHDA RESERVES THE RIGHT TO EXCEED THIS LIMIT FOR PROJECTS WITH SIGNIFICANT LOCAL IMPACT.**

Local contributions, such as tax abatement, infrastructure investments in sidewalks, improved roadways, and **OR** local redevelopment efforts that contribute to the housing project and/or sponsor capital contributions will be required.

**IF LESS THAN 40% OF THE ALLOWABLE DEVELOPER FEE IS DEFERRED,** Monthly payments based on a 50-year amortization will be due until the end of the first mortgage. At the end of the first mortgage term, the outstanding balance of the HOME loan, including accrued interest, will become the new first mortgage and begin amortization with monthly mortgage payments equal to the payments under the original first mortgage, **WITH THE BALANCE OF PRINCIPAL AND ALL INTEREST DUE AT THE EARLIER OF SALE OF THE DEVELOPMENT, REFINANCING OF THE MORTGAGE LOAN OR 50 YEARS AFTER LOAN CLOSING.**

If **40% OR** more than 40% of the allowable developer fee is deferred, the developer has two options related to the HOME loan:

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- a. Interest will accrue, but ~~PF~~ **HOME** loan amortization may be deferred until the deferred developer fee has been paid, but no later than the end of the 12<sup>th</sup> year. Beginning ~~in~~ **AT the EARLIER OF THE YEAR IN WHICH THE DEVELOPER FEE HAS BEEN PAID IN FULL OR IN THE 13<sup>th</sup> year FROM THE DATE OF MORTGAGE LOAN CUT-OFF**, annual payments will be **PAYABLE FROM TWENTY-FIVE PERCENT OF ANY SURPLUS CASH AVAILABLE FOR DISTRIBUTION TO THE OWNER**, ~~made from available cash flow~~, applied first to accrued interest, then to current interest and principal, **WITH THE BALANCE OF PRINCIPAL AND ALL INTEREST DUE AT THE EARLIER OF SALE OF THE DEVELOPMENT, REFINANCING OR THE MORTGAGE LOAN OR 50 YEARS AFTER CLOSING**
- b. If the **OWNER** ~~developer~~ agrees to contribute at least 3% of the allowable developer fee to the Resident Services Fund, MSHDA will allow a ~~Preservation Fund~~ **HOME** loan sufficient to reduce the deferred developer fee to 30%. Interest will accrue, but **HOME** ~~PF~~ loan amortization may be deferred until the deferred developer fee has been paid, but no later than the end of the 12<sup>th</sup> year. Beginning ~~in~~ **AT the EARLIER OF THE YEAR IN WHICH THE DEVELOPER FEE HAS BEEN PAID IN FULL OR IN THE 13<sup>th</sup> year FROM THE DATE OF MORTGAGE LOAN CUT-OFF**, annual payments will be **PAYABLE FROM TWENTY-FIVE PERCENT OF ANY SURPLUS CASH AVAILABLE FOR DISTRIBUTION TO THE OWNER**, ~~made from available cash flow~~, applied first to accrued interest, then to current interest and principal, **WITH THE BALANCE OF PRINCIPAL AND ALL INTEREST DUE AT THE EARLIER OF SALE OF THE DEVELOPMENT, REFINANCING OF THE MORTGAGE LOAN OR 50 YEARS AFTER CLOSING**.

At the end of the first mortgage term, the outstanding balance of the HOME loan, including accrued interest, will become the new first mortgage and begin amortization with monthly mortgage payments equal to the payments under the original first mortgage, **WITH THE BALANCE OF PRINCIPAL AND ALL INTEREST DUE AT THE EARLIER OF THE YEAR IN WHICH THE DEVELOPER FEE HAS BEEN PAID IN FULL OR 50 YEARS AFTER CLOSING** ~~Affordability restrictions apply for 50 years.~~

- H. **Resident Services Fund:** This fund will be administered by a 501c3 non-profit created for this purpose or some other entity, as approved by MSHDA, for the purpose of funding services such as youth development activities, job training and placement, service coordinators in senior housing, child care services, or other necessary and appropriate resident services. Any affordable rental housing development in Michigan is eligible to apply for funding from the RSF.
- I. **OTHER: ADDITIONAL PROGRAM REQUIREMENTS AS DEFINED IN THE MICHIGAN QUALIFIED ALLOCATION PLAN.**

**II. Interest Rate and Term:**

- A. **Rate:** The tax-exempt TEAM rate is currently 6.0 percent, fully amortizing over a 35-year loan term. Construction loans are offered at the same interest rate. In MSHDA-designated non-urban areas of the state, the interest rate may be up to 1 point less than the TEAM-urban rate. The interest rate charged by MSHDA depends upon bond market



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conditions and may change from time to time. Current rates are published on MSHDA's Web site. The rate quoted when a proposal is accepted for processing will not be subject to increase for six months.

- B. ~~Special Rate:~~ CONCESSIONS AND INDUCEMENTS:** A 1/2 percent rate deferral **REDUCTION** may be available if at least 15% of the units are affordable to a targeted population with services to be provided in accordance with a MSHDA-approved Addendum III Supportive Services Plan. This ~~deferral~~ **REDUCTION** will be forgiven if an acceptable level of services continue for the term of affordability and ~~will be~~ **THE RATE WILL BE RAISED** ~~eliminated~~ in the event services are not provided. **INTEREST RATE DEFERRAL MAY BE AVAILABLE IN CERTAIN MSHDA-DESIGNATED COMMUNITIES, SUCH AS CITIES OF PROMISE AND VERY LOW INCOME COUNTIES. IN PROJECTS WHERE AN INTEREST RATE DEFERRAL IS GIVEN, THE DEFERRED INTEREST SHALL BE REPAID ANNUALLY, USING THE REPAYMENT TERMS NOTED ABOVE FOR THE HOME LOAN, HOWEVER ALL DEFERRED INTEREST ON THE FIRST MORTGAGE WILL BE DUE AND PAYABLE ON THE MATURITY DATE OF THE FIRST MORTGAGE. NO ANNUAL DEBT SERVICE WILL BE DUE ON THE HOME LOAN WHILE THE FIRST MORTGAGE IS OUTSTANDING, BUT AT THE END OF THE FIRST MORTGAGE TERM, THE OUTSTANDING BALANCE OF THE HOME LOAN, INCLUDING ACCRUED INTEREST, WILL BECOME THE NEW FIRST MORTGAGE AND BEGIN AMORTIZATION WITH MONTHLY MORTGAGE PAYMENTS EQUAL TO THE PAYMENTS UNDER THE ORIGINAL FIRST MORTGAGE, WITH THE BALANCE OF PRINCIPAL AND ALL INTEREST DUE AT THE EARLIER OF THE YEAR IN WHICH THE DEVELOPER FEE HAS BEEN PAID IN FULL OR 50 YEARS AFTER CLOSING.**
- C. ~~Risk-sharing~~ LOAN INSURANCE:** MSHDA reserves the right to require the submission of documents necessary to obtain HUD risk-sharing (50/50) **OR FULL FHA** insurance. Typically, MSHDA will bear the cost of any risk-sharing insurance, should it be required. If the mortgagor requests risk-sharing insurance, the premium cost will be borne by the mortgagor.
- D. ~~Term/Prepayment:~~** The typical mortgage term is 35 years. Mortgages in combination with a HOME loan are not eligible for prepayment. After the 15<sup>th</sup> year, MSHDA may, **AT ITS SOLE DISCRETION**, allow prepayment of the mortgage after consultation with the owner regarding the development's physical and financial needs. ~~Factors to be considered include the ability to access additional funds to address capital needs and changing partnership interests.~~ In the event MSHDA permits a prepayment, the mortgagor must pay a 1% prepayment penalty plus any bond call premium, prepayment or swap penalty, **AND LOSS OF SPREAD BETWEEN THE LOAN AND BOND RATE USED TO FINANCE THE LOAN FROM THE DATE OF THE PREPAYMENT THROUGH THE END OF 20<sup>TH</sup> YEAR OF AMORTIZATION.** TEAM loans without a HOME component are eligible for prepayment **WITHOUT MSHDA APPROVAL** after the 20th year **AND THE PREPAYMENT PENALTIES AND COSTS DESCRIBED ABOVE** ~~and with MSHDA's approval after the 15<sup>th</sup> year. All prepayment penalties described above will apply.~~

**A MORTGAGOR INTERESTED IN PREPAYING A MORTGAGE WILL BE RESPONSIBLE FOR PAYING ANY COSTS ASSOCIATED WITH TERMINATION OF AN EQUAL AMOUNT OF AN INTEREST RATE SWAP AGREEMENT (SWAP). ONCE THE MORTGAGOR HAS BEEN APPROVED FOR THE EARLY PREPAYMENT OF THE UNDERLYING LOAN, THEY WILL SIGN AN AGREEMENT WITH MSHDA STATING THEY ARE RESPONSIBLE FOR THE COST OF TERMINATING THE**

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SWAP. THE MORTGAGOR CAN THEN CHOOSE THE TIMING OF THE TERMINATION AND PARTICIPATE IN THE TRANSACTION WITH THE SWAP COUNTERPARTY (LEHMAN, MERRILL LYNCH OR GOLDMAN SACHS). THE SWAP COUNTERPARTY WILL QUOTE THE COST OF TERMINATING THE SWAP AND THE MORTGAGOR WILL HAVE THE ABILITY TO EXECUTE THE TRANSACTION OR CANCEL AT THEIR SOLE DISCRETION. IF THE MORTGAGOR CHOOSES NOT TO TERMINATE THE SWAP, THEY WILL FORFEIT THE RIGHT TO PREPAY THE MORTGAGE.

- E. **Affordability Restrictions:** ~~Affordability restrictions for loans with a HOME component must extend for 50 years if a HOME loan is provided.~~ **AFFORDABILITY RESTRICTIONS IMPOSED AT THE CLOSING OF THE MORTGAGE LOAN MUST REMAIN IN PLACE FOR 90 YEARS.**

**III. Underwriting Standards:**

- A. **Loan Limits:** MSHDA's loans are limited to 110 percent of the applicable for-profit HUD 221 (d)(3) Mortgage Limits, as amended from time to time by HUD. For-profit sponsors can receive a mortgage loan of up to 90 percent of the total development cost, subject to the above limitation. Any proposal involving the syndication or sale of Housing Tax Credit is characterized as a for-profit venture, even if the developer or the general partner of the partnership that owns the project is a nonprofit group. The Authority's loan amount must be at least 50% of the total development cost for the federal 4% Housing Tax Credit to be available to assist in the financing.
- B. **DETERMINING THE NUMBER OF HOME UNITS: IF A HOME LOAN IS PROVIDED, THE NUMBER OF HOME-DESIGNATED UNITS WILL BE CALCULATED USING THE AMOUNT OF HOME FUNDS NECESSARY FOR PROJECT FEASIBILITY, AS DETERMINED BY MSHDA (SEE PRECEDING SECTION), DIVIDED BY THE LESSER OF THE PER UNIT TOTAL DEVELOPMENT COST OR THE FEDERAL HOME SUBSIDY LIMIT, GENERALLY NOT TO EXCEED 11 UNITS. HOME-DESIGNATED UNITS WILL BE SUBJECT TO A MINIMUM 20-YEAR AFFORDABILITY PERIOD, BEGINNING AFTER PROJECT COMPLETION.**
- C. **INCOME LIMITS: AT A MINIMUM, EITHER 20% OF THE UNITS MUST BE INCOME RESTRICTED TO HOUSEHOLDS WHOSE INCOMES DO NOT EXCEED 50% OF AREA MEDIAN INCOME OR 40% OF THE UNITS MUST BE INCOME RESTRICTED TO HOUSEHOLDS WHOSE INCOMES DO NOT EXCEED 60% OF AREA MEDIAN INCOME.**

IN PROPOSALS WHERE A HOME LOAN IS PROVIDED, WITH 5 OR MORE DESIGNATED HOME UNITS, 20% OF THE DESIGNATED HOME UNITS MUST BE OCCUPIED BY HOUSEHOLDS WITH INCOMES AT OR BELOW 50% OF THE AREA MEDIAN ADJUSTED FOR FAMILY SIZE. THE REMAINING HOME UNITS MAY BE OCCUPIED BY HOUSEHOLDS WITH INCOMES AT OR BELOW 60% OF THE AREA MEDIAN.

- D. **RENT RESTRICTIONS: RENTS (INCLUSIVE OF AN ESTIMATE OF TENANT-PAID UTILITIES) ON ANY OF THE UNITS THAT ARE TARGETED FOR TAX CREDIT OCCUPANCY AT THE 60% INCOME LEVEL, WILL BE RESTRICTED TO 95% OF**

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30% OF 60% OF AREA MONTHLY MEDIAN INCOME AS ESTABLISHED BY HUD. UNITS THAT ARE TARGETED FOR TAX CREDIT OCCUPANCY AT LESS THAN 60% INCOME LEVEL, WILL BE RENT RESTRICTED TO 30% OF THAT INCOME LIMIT. THE RESTRICTED RENT CALCULATION WILL BE BASED ON AN OCCUPANCY ASSUMPTION OF ONE AND ONE HALF PERSONS PER BEDROOM. IN SOME SITUATIONS, AS NOTED BELOW, THE USE OF HOME FUNDS WILL REQUIRE FURTHER RENTAL RESTRICTIONS.

RENTAL INCREASES DURING ANY 12-MONTH PERIOD WILL BE LIMITED TO NOT MORE THAN 5% OF THE RENT PAID BY THE RESIDENT HOUSEHOLD AT THE BEGINNING OF THAT ANNUAL PERIOD. EXCEPTIONS TO THIS LIMITATION MAY BE GRANTED BY THE AUTHORITY'S DIRECTOR OF ASSET MANAGEMENT FOR EXTRAORDINARY INCREASES IN PROJECT OPERATING EXPENSES (EXCLUSIVE OF LIMITED DIVIDEND PAYMENTS). RENTS ON VACATED UNITS MAY BE INCREASED TO THE MAXIMUM LEVEL PERMISSIBLE BY THE PROGRAM.

NOTWITHSTANDING THE ABOVE RENTAL RESTRICTIONS, ALL HOME-ASSISTED UNITS IN A RENTAL PROJECT MUST BE OCCUPIED ONLY BY HOUSEHOLDS THAT ARE ELIGIBLE AS LOW-INCOME FAMILIES, DEFINED AS FAMILIES WHOSE ANNUAL INCOME DOES NOT EXCEED 60% OF THE MEDIAN FAMILY INCOME FOR THE AREA AND HAVE RENTS NOT TO EXCEED THE LESSER OF THE EXISTING SECTION 8 FAIR MARKET RENT (FMR) AS ESTABLISHED BY HUD OR THE HIGH HOME RENTS AS ESTABLISHED BY HUD. IN RENTAL PROJECTS WITH FIVE OR MORE HOME-ASSISTED RENTAL UNITS, 20% OF THE HOME-ASSISTED UNITS MUST BE OCCUPIED BY VERY LOW-INCOME FAMILIES AND HAVE RENTS NOT TO EXCEED THE LESSER OF THE FMR, THE LOW HOME RENTS, OR A RENT THAT DOES NOT EXCEED 30% OF THE ANNUAL INCOME OF A FAMILY WHOSE INCOME EQUALS 50% OF THE MEDIAN INCOME FOR THE AREA, AS DETERMINED BY HUD.

- E. B. Market Determination:** The MARKET FOR THE DEVELOPMENT AND THE proposed rents must be supported by a professional, independent market analysis ~~or a rent-comparability analysis~~ as determined by MSHDA, and must be sufficient to meet debt service and normal operating expenses. **MSHDA WILL CONTRACT WITH A MARKET ANALYSIS FIRM TO CONDUCT THIS STUDY, WITH THE COST BORNE BY THE MORTGAGOR.** The impact of the proposed housing on other MSHDA developments in the area **AND THE DIFFERENTIAL BETWEEN MARKET RENT UNITS AND THE PROPOSED HOUSING** will be a factorS in accepting proposals for financing.
- ~~C. Debt Coverage: MSHDA requires a minimum debt coverage ratio of 1.10, based on the assessment of risk associated with the development.~~
- F. D. Developer Fees:** ~~The total development cost may include a developer fee, subject to the limitations of Michigan's Qualified Allocation Plan. The developer fee for development of 49 units or less is 20 percent of the total development cost (excluding the developer fee, developer overhead, and consultant fees). The developer fee for tax-exempt loans for projects in excess of 50 units is limited to 15 percent, not to exceed \$2 million.~~ **FOR ACQUISITION/REHABILITATION OR PRESERVATION PROJECTS OF 49 UNITS OR FEWER, THE COMBINED TOTAL OF THE DEVELOPER FEE,**

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DEVELOPER OVERHEAD, AND ANY CONSULTANT FEES WILL BE LIMITED TO \$2,000,000. THIS SHALL BE CALCULATED AS 20% OF THE TOTAL DEVELOPMENT COST, LESS: DEVELOPER FEE, DEVELOPER OVERHEAD, DEVELOPER CONSULTANT FEE, AND CERTAIN PROJECT RESERVES. FOR PROJECTS OF 50 UNITS OR MORE, THE COMBINED TOTAL OF THE DEVELOPER FEE, DEVELOPER OVERHEAD, AND ANY CONSULTANT FEE SHALL BE LIMITED TO \$2,000,000. THIS SHALL BE CALCULATED AS 10% OF TOTAL ACQUISITION COST OF LAND AND BUILDING(S), AND 15% OF THE TOTAL REHABILITATION COST, LESS: DEVELOPER FEE, DEVELOPER OVERHEAD, DEVELOPER CONSULTANT FEE, AND CERTAIN PROJECT RESERVES.

DEVELOPERS CONTRIBUTING AT LEAST 2.5% OF THEIR ALLOWABLE DEVELOPER FEE TO THE RESIDENT SERVICES FUND WILL BE ALLOWED 15% OF BOTH ACQUISITION AND REHAB COSTS AS DEFINED ABOVE.

FOR NEW CONSTRUCTION PROJECTS OF 49 UNITS OR FEWER, THE COMBINED TOTAL OF THE DEVELOPER FEE, DEVELOPER OVERHEAD, AND ANY CONSULTANT FEES SHALL BE LIMITED TO \$2,000,000. THIS SHALL BE CALCULATED AS 20% OF TOTAL DEVELOPMENT COSTS, LESS: DEVELOPER FEE, DEVELOPER OVERHEAD, AND DEVELOPER CONSULTANT FEES. FOR NEW CONSTRUCTION PROJECTS OF 50 UNITS OR MORE, THE COMBINED TOTAL OF THE DEVELOPER FEE, DEVELOPER OVERHEAD, AND ANY CONSULTANT FEES SHALL BE LIMITED TO \$2,000,000. THIS SHALL BE CALCULATED AS 15% OF TOTAL DEVELOPMENT COSTS, LESS: DEVELOPER FEE, DEVELOPER OVERHEAD, AND DEVELOPER CONSULTANT FEES.

IF AN EXISTING PROJECT IS SPLIT INTO TWO OR MORE PROJECTS, THE AGGREGATE DEVELOPER FEE FOR ALL PROJECTS CANNOT EXCEED \$2,000,000.

- G. ~~E. Operating Assurance Reserve:~~ ~~A Operating Assurance Reserve (OAR) will be established equal to four months estimated operating expenses, payments required under the mortgage note, deposits to reserves and other anticipated development expenses.~~ AT THE TIME OF INITIAL DISBURSEMENT OF MORTGAGE LOAN PROCEEDS, THE MORTGAGOR MUST ESTABLISH AN OPERATING ASSURANCE RESERVE (THE "OAR") EQUAL TO FOUR MONTHS' ESTIMATED OPERATING EXPENSES, PAYMENTS REQUIRED UNDER THE MORTGAGE NOTE, DEPOSITS TO RESERVES AND OTHER ANTICIPATED DEVELOPMENT EXPENSES. THE OAR MAY BE FUNDED WITH CASH OR UP TO 50% WITH AN IRREVOCABLE, UNCONDITIONAL LETTER OF CREDIT ACCEPTABLE TO THE AUTHORITY. TO THE EXTENT ANY PORTION OF THE OAR IS USED PRIOR TO THE FINAL CLOSING OF THE MORTGAGE LOAN, THE MORTGAGOR MUST RESTORE THE OAR TO ITS ORIGINAL BALANCE AT FINAL CLOSING.

THE OAR AND ANY INTEREST IT ACCRUES WILL BE HELD BY THE AUTHORITY FOR A MINIMUM OF 15 FULL YEARS OF OPERATION OF THE DEVELOPMENT AND MAY BE USED IN ACCORDANCE WITH THE AUTHORITY'S WRITTEN POLICY ON THE USE OF THE OPERATING ASSURANCE RESERVE, AS AMENDED FROM TIME TO TIME.

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IN THE 10<sup>TH</sup> YEAR OF OPERATION, THE OAR WILL BE USED TO FULLY FUND THE REPLACEMENT RESERVE NEEDS IDENTIFIED BY AN INDEPENDENT COMPREHENSIVE NEEDS ANALYSIS AND TO FULLY FUND ANY OTHER ESCROW ACCOUNTS. IF THE AMOUNT REQUIRED TO FUND ESCROWS IS REPRESENTED BY A LETTER OF CREDIT, THE LETTER OF CREDIT WILL BE DRAWN UPON. THE MORTGAGOR MAY REQUEST APPROVAL OF UP TO A 50% REDUCTION/RELEASE IN THE REMAINING OAR. THE DIRECTOR OF ASSET MANAGEMENT MAY APPROVE A RELEASE AND/OR REDUCTION, BASED ON A REVIEW OF THE DEVELOPMENT'S OPERATIONS. ALL EXCESS AMOUNTS RELEASED FROM THE OAR (IN CONNECTION WITH THIS OR ANY FUTURE RELEASE) WILL BE DEPOSITED INTO THE DEVELOPMENT'S OPERATING ACCOUNT.

FOLLOWING THE 15TH FULL YEAR OF OPERATION, OAR FUNDS THAT ARE NOT NEEDED FOR FUNDING OF THE REPLACEMENT RESERVE, OR OTHER ESCROWS WILL BE AVAILABLE FOR RELEASE TO THE DEVELOPMENT'S OPERATING ACCOUNT.

- H. **F. Replacement Reserve:** The first year deposit to this reserve is a minimum of \$250 per unit for all senior new construction developments, expressed as a percentage of rental income and increasing over time as rental income increases. The minimum first year deposit to the replacement reserve for family new construction or rehabilitation will be equal to \$300 per unit. Development amenities, unit type, or foreseeable replacement of capital items (in the case of rehabilitation) may dictate a higher required deposit.

FOR ACQUISITION/REHAB PROPOSALS, THE ANNUAL DEPOSIT TO THE REPLACEMENT RESERVE ON THE FIRST FULL YEAR OF THE NEW LOAN WILL NOT BE LESS THAN \$300 PER UNIT. FURTHERMORE, AT THE MORTGAGE LOAN CLOSING THE SPONSOR MUST DEPOSIT THE GREATER OF \$700 PER UNIT, OR AN AMOUNT DETERMINED TO SATISFY THE REQUIREMENTS OF THE AUTHORITY APPROVED CAPITAL NEEDS ASSESSMENT OVER A 20-YEAR PERIOD.

- I. **OPERATING DEFICIT RESERVE:** AN OPERATING DEFICIT RESERVE (ODR) MAY BE REQUIRED BASED ON A CASH FLOW ANALYSIS OVER A 20-YEAR PERIOD. WHEN REQUIRED, THE MORTGAGOR MUST ENTER INTO AN AGREEMENT AND ESTABLISH AN ODR WITH THE AUTHORITY WITH AN INITIAL DEPOSIT AT CLOSING. THE ODR SHALL BE FUNDED IN CASH, HELD AND CONTROLLED BY THE AUTHORITY AND WILL BE INVESTED AND REINVESTED BY THE AUTHORITY'S OFFICE OF FINANCE. INTEREST EARNED ON THIS RESERVE, IF ANY, SHALL BECOME PART OF THIS RESERVE AND SHALL BE TREATED AND DISBURSED IN THE SAME WAY.

THE AMOUNT DISBURSED ANNUALLY FROM THE ODR WILL BE THE ANNUAL PROJECTED BUDGET DEFICIT AS SHOWN ON CASH FLOW ANALYSIS ESTABLISHING THE ODR. EACH MONTH THE AUTHORITY WILL WITHDRAW 1/12TH OF THE PROJECTED ANNUAL DEFICIT FOR THAT SPECIFIC YEAR FROM THE ODR, AND WILL APPLY IT AGAINST THE MORTGAGE PAYMENT DUE THAT MONTH. THE ANNUAL DISBURSEMENT WILL REMAIN UNCHANGED UNTIL THE MORTGAGOR REQUESTS AN INCREASE, WHICH CAN BE MADE UP TO THE

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AMOUNT ON ATTACHMENT A FOR THAT YEAR. THIS WILL CONTINUE EACH YEAR UNTIL THE ODR HAS BEEN DEPLETED OR THE AUTHORITY'S MORTGAGE LOAN(S) ARE PAID IN FULL.

IN THE EVENT THAT THE DEVELOPMENT EXPERIENCES AN OPERATING DEFICIT THAT IS GREATER THAN THAT PROJECTED, THE MORTGAGOR MAY REQUEST THAT THE AUTHORITY INCREASE THE AMOUNT DRAWN FROM THE ODR. THE DIRECTOR OF ASSET MANAGEMENT MUST APPROVE THE REQUEST. HOWEVER, THE MORTGAGOR SHALL NOT BE ENTITLED TO RECEIVE A LIMITED DIVIDEND PAYMENT FOR ANY YEAR IN WHICH THE AMOUNT DRAWN FROM THE ODR IS GREATER THAN THE AMOUNT IDENTIFIED IN ATTACHMENT A FOR THAT YEAR, UNTIL THE BALANCE OF THE ODR IS RESTORED TO THE APPROPRIATE LEVEL.

AT THE EARLIER OF THE TIME WHEN THE ODR HAS BEEN DEPLETED OR DURING THE 20TH YEAR AFTER MORTGAGE LOAN CLOSING, THE AUTHORITY WILL DETERMINE THE ANNUAL PROJECTED OPERATING DEFICITS AND THE TOTAL AMOUNT SUFFICIENT TO FUND PROJECTED OPERATING DEFICITS THROUGH THE REMAINING TERM OF THE AUTHORITY'S MORTGAGE LOAN(S). THE MORTGAGOR MUST DEPOSIT THIS AMOUNT IN CASH INTO THE ODR, TO BE HELD BY THE AUTHORITY AND DISBURSED AS NOTED ABOVE. FAILURE TO REPLENISH THE ODR, WHEN REQUIRED BY THE AUTHORITY, SHALL CONSTITUTE A DEFAULT ON THE MORTGAGE LOAN. IN THE EVENT THAT THE AUTHORITY'S MORTGAGE LOAN IS ACCELERATED AFTER A DEFAULT IN THE TERMS OF THE MORTGAGE, NOTES OR REGULATORY AGREEMENT, THE AUTHORITY, IN ITS SOLE DISCRETION, MAY, BUT IS NOT REQUIRED TO, APPLY ANY FUNDS ON DEPOSIT IN THE ODR, TO THE AMOUNT DUE ON THE MORTGAGE LOANS AS ACCELERATED.

AT SUCH TIME AS THE AUTHORITY'S MORTGAGE LOAN(S) AND ALL OTHER FINANCIAL OBLIGATIONS TO THE AUTHORITY ARE PAID IN FULL, THE REMAINING BALANCE OF THE ODR, INCLUDING ALL INTEREST THAT HAS ACCUMULATED, WILL BE DISBURSED TO THE MORTGAGOR.

- J. **G. Vacancy Loss:** Vacancy loss will be budgeted, at a minimum, at 5% of the gross rental potential. At MSHDA's discretion, in certain markets **OR FOR SMALLER SIZE PROJECTS**, a higher vacancy loss may be required.
- K. **TAX ABATEMENT:** IF UNDERWRITING REQUIRES TAX ABATEMENT, THE AUTHORITY MUST BE SATISFIED THAT THE TAX ABATEMENT SHALL BE IN EFFECT FOR THE 35-YEAR MORTGAGE TERM. ESCALATING PILOTS WILL BE UNDERWRITTEN AT THE MAXIMUM RATE, RATHER THAN THE INITIAL RATE.
- L. **H. Limited Dividend Calculations:** MSHDA's statute limits the return an owner can take on the equity investment in the project. Equity is defined as total development cost, less MSHDA mortgage and less any grants and "soft" or non-amortizing secondary financing. For tax-exempt loans, a return on the equity contribution of the owner of 12 percent in the first year following the cut-off date is permitted. This limit increases by one percent per year until a cap of 25 percent is achieved, **UNLESS AN INTEREST RATE DEFERRAL AND/OR A HOME LOAN, AND/OR OTHER MSHDA CONCESSION IS OUTSTANDING. IN THIS CIRCUMSTANCE, THE LIMITED DIVIDEND IS CAPPED**

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AT 12% UNTIL THE HOME LOAN HAS BEEN FULLY REPAID AND/OR MSHDA HAS BEEN FULLY REIMBURSED FOR ANY OTHER CONCESSION. THE OWNER MAY REQUEST TO INCREASE THE LD UPON FULL PAYMENT OF THE HOME LOAN AND/OR REIMBURSEMENT OF ANY OTHER CONCESSION. THE ELIGIBLE LIMITED DIVIDEND IS CUMULATIVE.

**M. CONSTRUCTION CONTRACT ALLOWANCES:** LINE ITEM ALLOWANCES WITHIN THE CONSTRUCTION CONTRACT IS 6% FOR BUILDER PROFIT, 2% FOR BUILDER OVERHEAD, AND 6% FOR GENERAL REQUIREMENTS OF THE TOTAL CONSTRUCTION CONTRACT AMOUNT.

**N. G. Debt Coverage:** MSHDA requires a minimum debt coverage ratio of 1.10, based on the assessment of risk associated with the development.

**O. I. Rent-Up Allowance:** For new construction or vacant acquisition and rehabilitation proposals, a Rent-up Allowance is required. Rent-up period interest is included in the mortgage beyond the construction period. The Rent-Up Allowance typically supports three UP to six months of interest. In situations where a rent-up period in excess of three SIX months is projected to achieve 60 80% OF RENT POTENTIAL occupancy, MSHDA may, at its sole discretion, extend the rent-up period requiring that additional interest, along with additional insurance, tax, and marketing expenses be budgeted and supported by the mortgage until development operations can reasonably be expected to support both operations and these expenses.

The mortgagor may elect to provide cash, an unconditional, irrevocable letter of credit, or other security acceptable to the Director of Finance for this additional expense. The mortgagor may, upon achieving 60 80% OF RENT POTENTIAL occupancy as described above, and providing evidence of 12 month leases at rents at least EQUAL to the rents stipulated in the commitment proforma, without rent concessions, request in writing that the letter of credit or other security be released.

For occupied acquisition and rehabilitation proposals, one month's gross rent potential is required to be deposited to the operating account of the development at closing, **AND OTHER RE-MARKETING OR TRANSITIONAL OPERATING RESERVES MAY BE REQUIRED.**

**P. J. MSHDA Design Standards/Site Selection Criteria:** MSHDA has multifamily design standards that often exceed the requirements of local building codes and site selection criteria against which all proposed development sites are reviewed. The design standards and site criteria are available on MSHDA's web site. The sponsor's architect will be required to certify compliance of the plans and specifications with the design standards.

**Q. K. Construction Contingencies:** Construction contingencies will be required for all proposals involving rehabilitation, with the requisite contingency amount determined on a case-by-case basis. Rehabilitation contingencies of 5 percent of the construction contract amount should be anticipated. Generally, these funds will be a line item in the development budget within "soft cost" and not part of the construction contract. For new construction, a construction contingency will not be required unless unusual site conditions are anticipated (such as buried debris or environmental remediation). Contingency funds are allowed if required by the equity partner.

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- R. ~~L. No Relocation:~~ Involuntary permanent relocation of existing residents in rehabilitation proposals is not permitted.
- S. ~~M. Syndication and other Equity Pay-In:~~ ~~A consultation between the mortgagor, MSHDA, and the syndicator is recommended to determine an~~ **MSHDA'S ASSIGNED HDO WILL FACILITATE A CONSULTATION PROCESS WITH THE SPONSOR, APPROPRIATE MSHDA STAFF, AND THE SPONSOR'S SYNDICATOR IN ORDER TO ARRIVE AT A MUTUALLY** acceptable and detailed schedule setting forth **BOTH** the timing of the anticipated payment of all costs necessary to complete the development, and achieve sustaining occupancy. ~~This schedule must further compare the "uses" of funds over time with the proposed availability of "sources" of funds. It is expected that 75% of all general project costs be paid in by 50% construction completion and 100% by 75% completion.~~

~~Conditions to any non-MSHDA source of funds will be reviewed and may be rejected if those conditions jeopardize the availability of the funding when it is needed. With the exception of payments of developer fees directly from the equity partner to the mortgagor, all non-MSHDA sources of funding must be deposited with and disbursed through MSHDA.~~

~~At its discretion, MSHDA may provide construction financing to bridge equity pay-ins.~~ **ALONG WITH THE SOURCES OF SUCH PAYMENTS. THIS FACILITATION SHALL TAKE PLACE SHORTLY AFTER THE MSHDA BOARD APPROVES THE FEASIBILITY/COMMITMENT REPORT AND WILL BE SPECIAL CONDITION OF THAT REPORT. A MORTGAGE LOAN CLOSING WILL NOT BE SCHEDULED UNTIL THERE IS AN AGREEMENT AMONG THE PARTIES AS TO THE SCHEDULE OF FUNDING.**

**IT IS EXPECTED THAT MSHDA SHALL RECEIVE SUFFICIENT EQUITY AND OTHER CONTRIBUTIONS TO ASSURE THAT WHEN COMBINED WITH MORTGAGE LOAN PROCEEDS, THERE WILL BE SUFFICIENT FUNDS TO ASSURE PAYMENT OF DEVELOPMENT COSTS DURING CONSTRUCTION. MSHDA WILL WORK WITH BOTH THE SPONSOR AND THE SYNDICATOR ON TIMING ISSUES AND WORK TO IDENTIFY MUTUALLY AGREEABLE SOLUTIONS TO FILL FUNDING GAPS AS APPROPRIATE TO THE PARTICULAR SITUATION. HOWEVER, IN NO EVENT WILL MSHDA AGREE TO A CONDITION(S) THAT IT DETERMINES JEOPARDIZE THE AVAILABILITY OF FUNDING WHEN IT IS NEEDED. WITH THE EXCEPTION OF PAYMENTS OF DEVELOPER FEES DIRECTLY FROM THE EQUITY PARTNER TO THE MORTGAGOR, ALL NON-MSHDA SOURCES OF FUNDS MUST BE DEPOSITED WITH AND DISBURSED THROUGH MSHDA.**

**IV. Other Information:**

- A. ~~Fees:~~ ~~A NON-REFUNDABLE application fee of \$1,000 A-2% commitment fee and tax credit and compliance fees apply~~ **MUST BE SUBMITTED WITH ANY PROPOSAL FOR MORTGAGE LOAN FINANCING. ADDITIONALLY, A NON-REFUNDABLE FILING FEE OF .5% OF THE PROPOSED MORTGAGE AMOUNT WILL BE CHARGED FOR PROJECTS PRESENTED TO THE AUTHORITY BOARD FOR A COMBINED MORTGAGE LOAN FEASIBILITY/COMMITMENT AUTHORIZATION. THE NON-**



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**REFUNDABLE FILING FEE IS CREDITED TOWARD A 2% COMMITMENT FEE THAT IS PAID AT THE INITIAL LOAN CLOSING.**

- B. LABOR STANDARDS:** EVERY CONTRACT FOR THE CONSTRUCTION OF HOUSING UNDER THIS PROGRAM THAT INCLUDES 12 OR MORE HOME-DESIGNATED UNITS MUST CONTAIN A PROVISION REQUIRING THE PAYMENT OF NOT LESS THAN THE WAGES PREVAILING IN THE LOCALITY, AS PREDETERMINED BY THE SECRETARY OF LABOR PURSUANT TO THE DAVIS-BACON ACT, TO ALL LABORERS AND MECHANICS EMPLOYED IN THE DEVELOPMENT OF ANY PART OF THE HOUSING.
- C. ~~B.~~ Equal Opportunity:** MSHDA requires a plan from:
- The **PRIME** Contractor **IS** to provide equal opportunities **EQUAL OPPORTUNITY PLAN** for ~~minority and female-owned subcontractors and material suppliers and to provide jobs for minority and female members of the~~ **WORKFORCE TRADE UTILIZATIONS AND FOR BUSINESS CONTRACTING ENTERPRISES TO SUBCONTRACTORS AND MATERIAL SUPPLIERS**; and
  - The management agent to aggressively and affirmatively market the housing to minority groups.
- D. ~~C.~~ Cost Certification:** The contractor and the mortgagor must submit timely certifications of the actual costs incurred in developing and building the project.
- E. ~~D.~~ Loan Management:** MSHDA's Office of Asset Management monitors a development's operations for compliance with controlling **LOAN** documents and its financial and physical condition through a variety of reporting systems. These systems include electronic submission of monthly income and expense statements, review and approval of annual budgets and audits, approval of the use of reserves, and other required reports. A development's compliance with resident income eligibility, rental restrictions, and physical inspections is monitored by MSHDA's Compliance Division.
- F. ~~E.~~ Application processing:** A six-month processing time from application to closing is anticipated. Proposals not submitting a ~~market study, Phase I environmental report, preliminary soil borings, site analysis and feasibility level drawings, and operating numbers~~ **FEASIBILITY MATERIALS** within 60 days of acceptance will be removed from the active pipeline. **EXPEDITED PROCESSING OPTION IS AVAILABLE UPON REQUEST.**
- G. ~~F.~~ Typical Processing Steps:**
- Preliminary conference (optional)
  - Within 30 days of receipt of proposal, staff makes initial determination of site acceptability and development team capability and **IF ACCEPTABLE** issues letter of acceptance for processing (lock of rate and **PRESERVATION FUND AND HOME Loan** funds for **9 6** months)
  - Mortgagor submits ~~market study, environmental Phase I, preliminary soil borings, and feasibility level drawings~~ **FEASIBILITY MATERIALS** within 60 days of Acceptance or application is considered inactive.

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- Within 60 days of receipt of feasibility materials (~~market study, environmental Phase 1, preliminary soil borings, feasibility level drawings, and operating numbers~~), staff issues Mortgage feasibility letter or Board action may be combined with mortgage loan commitment **STAFF WILL COMPLETE FEASIBILITY LEVEL ANALYSIS AND PRESENT TO LOAN COMMITTEE FOR ACTION.**
- **IF ACCEPTABLE, NOTICE TO PROCEED IS ISSUED**
- **WITHIN 60 DAYS OF RECEIPT OF COMMITMENT MATERIALS, STAFF WILL COMPLETE COMMITMENT LEVEL ANALYSIS AND PRESENT TO LOAN COMMITTEE FOR ACTION.**
- **IF ACCEPTABLE, A RECOMMENDATION IS MADE FOR BOARD APPROVAL FOR AUTHORIZATION OF MORTGAGE LOAN FEASIBILITY AND COMMITMENT.**
- **AWARD OF 9% LIHTC**
- ~~Mortgage loan commitment/~~Loan Closing

**H. INACTIVE APPLICATIONS: A HOUSING DEVELOPMENT OFFICER, IN CONSULTATION WITH THE MSHDA DEVELOPMENT MANAGER AND DIRECTOR OF MULTIFAMILY DEVELOPMENT WILL DETERMINE AN APPLICATION TO BE INACTIVE AND PLACE IT IN THE "INACTIVE" PIPELINE IF THE SPONSOR IS UNABLE TO SUBMIT MATERIALS REQUIRED FOR CONTINUED PROCESSING IN A TIMELY MANNER (GENERALLY, 30 DAYS FROM THE DATE OF REQUEST FOR SUCH MATERIALS). ADDITIONALLY, SPONSORS MAY REQUEST THAT AN APPLICATION BE MADE "INACTIVE" FOR ANY REASON.**

**WHEN AN APPLICATION IS PLACED ON "INACTIVE" STATUS, IT LOSES ITS INTEREST RATE LOCK. THE INTEREST RATE FOR AN "INACTIVE" APPLICATION WILL BE DETERMINED UPON RE-ACTIVATION. AN "INACTIVE" STATUS DOES, HOWEVER, ACT AS A PLACEHOLDER FOR THE MARKET. AS LONG AS AN APPLICATION IS IN THE "INACTIVE" PIPELINE, NO NEW APPLICATIONS FOR THE SAME DEVELOPMENT TYPE WILL BE CONSIDERED FOR THIS MARKET, WITHOUT THE SPONSOR OF THE INACTIVE APPLICATION FIRST HAVING A CHANCE TO RESOLVE THE INACTIVE STATUS.**

**HOME FUNDS WILL NOT BE HELD FOR APPLICATIONS IN THE INACTIVE PIPELINE.**

**UPON RECEIPT OF ANOTHER APPLICATION IN THE SAME MARKET AREA, MSHDA WILL IMMEDIATELY NOTIFY BOTH THE NEW APPLICANT AND THE SPONSORS OF ANY INACTIVE APPLICATION(S) IN THAT MARKET AREA. SPONSORS WITH AN APPLICATION IN THAT MARKET AREA IN THE "INACTIVE" PIPELINE MUST:**

- **NOTIFY MSHDA IN WRITING THAT THEY WISH TO ACTIVATE THE APPLICATION WITHIN FOURTEEN DAYS OF THE DATE OF THE NOTICE, AND**
- **SUBMIT ALL OUTSTANDING DOCUMENTATION REQUIRED FOR PROCESSING WITHIN THIRTY (30) DAYS OF THE DATE OF THE NOTICE.**

**IF THE SPONSOR SATISFIES BOTH OF THESE CONDITIONS THE APPLICATION SHALL BE REACTIVATED. IF THE SPONSOR FAILS TO SATISFY BOTH OF THE CONDITIONS ABOVE, THE "INACTIVE" APPLICATION WILL BE REMOVED FROM**

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ALL PIPELINES AND BECOMES VOID AND THE NEW APPLICATION WILL REPLACE THE INACTIVE APPLICATION IN THE PIPELINE. THE SPONSOR OF THE NEW APPLICATION WILL BE NOTIFIED OF THE HOLD ON THEIR APPLICATION, PENDING DISPOSITION OF THE INACTIVE APPLICATION.

THE MAXIMUM AMOUNT OF TIME ANY APPLICATION WILL BE CONSIDERED "INACTIVE" IS SIX (6) MONTHS FROM THE DATE IT BECOMES INACTIVE. AFTER SIX (6) MONTHS, THE APPLICATION WILL BE REMOVED AND CONSIDERED VOID.

TO ACTIVATE AN APPLICATION PREVIOUSLY CONSIDERED "INACTIVE" THE SPONSOR MUST SUBMIT WRITTEN INTENT TO MSHDA ALONG WITH ALL REQUIRED DOCUMENTATION WITHIN 30 DAYS OF THE DATE OF ITS WRITTEN NOTIFICATION TO BE COME REACTIVATED, OTHERWISE THE APPLICATION IS VOID. NO ADDITIONAL FEES ARE REQUIRED TO ACTIVATE AN APPLICATION; HOWEVER, MSHDA MAY, AT ITS SOLE DISCRETION, DECLINE TO ACTIVATE ANY APPLICATION AND/OR MAY REMOVE ANY APPLICATION FROM ITS PIPELINE.

- I. ~~G.~~ **Unique Circumstances:** Developers are encouraged to discuss unique development opportunities not within these parameters with MSHDA Multifamily Development staff to determine the potential for waiver of certain of these parameters.

**HOME TEAM Advantage Lending Parameters  
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**Reformatted May 15, 2006 September 26, 2007**

MSHDA offers a comprehensive financing package for the development of affordable rental housing in rural communities. Reduced rate tax-exempt financing is combined with federal HOME funds to support developments of 12-49 units (minimum of 24 units is recommended). Generally, a maximum of 49 units per community will be considered, although rehabilitation proposals up to 100 units may be considered in non-urban communities, if targeting criteria is met. The program provides construction loans, fixed rate permanent mortgages, Housing Tax Credit, and HOME funds designed to complement and enhance the feasibility of projects located in the non-urban traditional areas of commerce of the state.

Loans will be provided to the extent the following objectives are met:

- The community contributes to the project's affordability and feasibility through tax abatement, as well as, other options such as donated or reduced cost land and waived tap fees, or infrastructure improvements including broadband access; and
- The site is connected to community services such as schools, shopping, and parks by sidewalks or other walkable connections, is supported by local infrastructure and public transit, if available, and provides a mix of housing types and land uses conducive to residential use.

**I. Eligibility and Resource Availability:**

**A. PROJECT SIZE: ELIGIBLE PROJECTS RANGE BETWEEN 12-49 UNITS.**

**B. Eligible Areas:** Project sites must be located in non-urban communities (see attached list of MSHDA-defined urban areas) and must meet targeting criteria identified on the attached checklist. In addition, any proposal awarded funding under the USDA Rural Development Section 515 program is eligible to participate in HOME TEAM Advantage.

**C. INELIGIBLE PROJECTS: NURSING HOMES, ADULT FOSTER CARE HOMES, STUDENT HOUSING, TRANSIENT HOUSING, OR SINGLE ROOM OCCUPANCY.**

**D. ELIGIBLE BORROWERS: A SPONSOR/DEVELOPER MAY BE A NONPROFIT, AN INDIVIDUAL, A GROUP OF INDIVIDUALS, A CORPORATE ENTITY, OR SOME COMBINATION. PRIOR TO MORTGAGE LOAN COMMITMENT, A LEGAL ENTITY MUST BE FORMED THAT IS AN "ELIGIBLE BORROWER" UNDER THE AUTHORITY'S ACT.**

**E. MINIMUM REHAB: FOR ACQUISITION/REHAB PROPOSALS, AT LEAST \$10,000 IN REHAB/UNIT AND 15% OF ACQUISITION COST REQUIRED, WITH EMPHASIS ON IMPROVEMENTS BENEFITING RESIDENTS (CAPITAL NEEDS ASSESSMENT REQUIRED)**

**F. LOCAL CONTRIBUTIONS: TAX ABATEMENT FOR THE TERM OF THE MORTGAGE**

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IS A THRESHOLD REQUIREMENT. TWO CONTRIBUTIONS FROM THE LOCAL COMMUNITY ARE REQUIRED, OF WHICH A PILOT OF 5% OR LESS IS CONSIDERED ONE OF THE LOCAL CONTRIBUTIONS. EXAMPLES OF OTHER LOCAL CONTRIBUTIONS INCLUDE DONATION OF LAND, PUBLIC IMPROVEMENTS SUCH AS SIDEWALKS, WAIVER OF TAP FEES OR OTHER LOCAL FEES OF SIGNIFICANT VALUE, THE REDEVELOPMENT OF A NEARBY PARK OR OTHER DEVELOPMENT AMENITY. ESCALATING PILOTS WILL BE UNDERWRITTEN AT THE MAXIMUM RATE, RATHER THAN THE INITIAL RATE.

- G. **Tax-exempt Eligibility:** Proposed tax-exempt financing must equal at least 51% of the total development costs and **REHABILITATION EXPENDITURES WITH RESPECT TO EACH BUILDING, WHICH MUST EQUAL OR EXCEED 15 PERCENT OF THE PORTION OF THE COST OF ACQUIRING SUCH BUILDING (AND EQUIPMENT)**, Participation in the Housing Tax Credit program is required and underwriting standards of the Qualified Allocation Plan will apply.
- H. **Michigan Green Communities Grant:** A grant of \$1,000 per affordable unit, up to a maximum of \$50,000 **PER PROJECT**, is available from MSHDA for developments meeting the Michigan Green Communities criteria. The Enterprise Foundation will match funds and a \$3,000 grant is provided for administrative reporting.
- I. **HOME Investment Partnership Funding:** The minimum amount of HOME funding will be \$1,000 per **HOME ASSISTED** unit. The maximum amount of HOME assistance will be the lesser of (1) the equity gap as determined by MSHDA, or (2) up to ~~\$46,000~~ **\$30,000** per unit multiplied by the total number of units in the development for proposals which fully meet the targeting criteria, present opportunity for significant community impact, and involve higher development costs because of rehabilitation, demolition, and other site or development factors. HOME assistance will be provided as a non-amortizing subordinate mortgage to be repaid from:
- Twenty-five percent of any **SURPLUS** cash **AVAILABLE FOR** distribution to the project owner, as determined by an independent annual audit of project income and expenses;
  - The proceeds of any refinancing or sale ~~designed to alter the low-income character of the residents of the development.~~ In this event, the full subordinate HOME loan will be accelerated and become immediately due and payable; and
  - Project operating revenue following repayment of the first mortgage. The outstanding balance of the HOME loan will become the new first mortgage and begin to bear interest at the same rate as the original mortgage with monthly mortgage payments equal to the payments under the original first mortgage **WITH THE BALANCE OF PRINCIPAL AND ALL INTEREST DUE 50 YEARS AFTER CLOSING.**
- J. **OTHER: ADDITIONAL PROGRAM REQUIREMENTS AS DEFINED IN THE MICHIGAN QUALIFIED ALLOCATION PLAN.**

**II. Interest Rate and Term:**

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- A. **Rate:** The interest rate for this program will be one percentage point below the applicable TEAM lending rate. The specific interest rate and a reservation of HOME funds will be assigned at acceptance for processing and will be valid for 6 months. A proposal not achieving mortgage loan commitment within 6 months of acceptance may lose the HOME reservation or be subject to an increase in the interest rate to close.
- B. **LOAN INSURANCE:** MSHDA RESERVES THE RIGHT TO REQUIRE THE SUBMISSION OF DOCUMENTS NECESSARY TO OBTAIN HUD RISK-SHARING (50/50) OR FULL FHA INSURANCE. TYPICALLY MSHDA WILL BEAR THE COST OF ANY RISK-SHARING INSURANCE, SHOULD IT BE REQUIRED. IF THE MORTGAGOR REQUESTS RISK-SHARING INSURANCE, THE PREMIUM COST WILL BE BORNE BY THE MORTGAGOR.
- C. **Term/Prepayment:** The typical mortgage term is 35 years and is not eligible for prepayment. After the 15<sup>th</sup> year, MSHDA may, **AT ITS SOLE DISCRETION**, allow prepayment of the mortgage after consultation with the owner regarding the development's physical and financial needs. In the event MSHDA permits a prepayment, the mortgagor must pay a 1% prepayment penalty plus any bond call premium, prepayment or swap penalty **AND LOSS OF SPREAD BETWEEN THE LOAN AND BOND RATE USED TO FINANCE THE LOAN FROM THE DATE OF THE PREPAYMENT THROUGH THE END OF THE 20<sup>TH</sup> YEAR OF AMORTIZATION.**
- A MORTGAGOR INTERESTED IN PREPAYING A MORTGAGE WILL BE RESPONSIBLE FOR PAYING ANY COSTS ASSOCIATED WITH TERMINATION OF AN EQUAL AMOUNT OF AN INTEREST RATE SWAP AGREEMENT (SWAP). ONCE THE MORTGAGOR HAS BEEN APPROVED FOR THE EARLY PREPAYMENT OF THE UNDERLYING LOAN, THEY WILL SIGN AN AGREEMENT WITH MSHDA STATING THEY ARE RESPONSIBLE FOR THE COST OF TERMINATING THE SWAP. THE MORTGAGOR CAN THEN CHOOSE THE TIMING OF THE TERMINATION AND PARTICIPATE IN THE TRANSACTION WITH THE SWAP COUNTERPARTY (LEHMAN, MERRILL LYNCH OR GOLDMAN SACHS). THE SWAP COUNTERPARTY WILL QUOTE THE COST OF TERMINATING THE SWAP AND THE MORTGAGOR WILL HAVE THE ABILITY TO EXECUTE THE TRANSACTION OR CANCEL AT THEIR SOLE DISCRETION. IF THE MORTGAGOR CHOOSES NOT TO TERMINATE THE SWAP, THEY WILL FORFEIT THE RIGHT TO PREPAY THE MORTGAGE.
- D. **Affordability Restrictions:** AFFORDABILITY RESTRICTIONS IMPOSED AT THE CLOSING OF THE MORTGAGE LOAN MUST REMAIN IN PLACE FOR 90 YEARS.

**III. Underwriting Standards:**

- A. **LOAN LIMITS:** MSHDA'S LOANS ARE LIMITED TO 110 PERCENT OF THE APPLICABLE HUD 221 (D)(3) MORTGAGE LIMITS, AS AMENDED FROM TIME TO TIME BY HUD. FOR-PROFIT SPONSORS CAN RECEIVE A MORTGAGE LOAN OF UP TO 90 PERCENT OF THE TOTAL DEVELOPMENT COST, SUBJECT TO THE ABOVE LIMITATION. ANY PROPOSAL INVOLVING THE SYNDICATION OR SALE OF HOUSING TAX CREDIT IS CHARACTERIZED AS A FOR-PROFIT VENTURE, EVEN IF THE DEVELOPER OR THE GENERAL PARTNER OF THE PARTNERSHIP

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**THAT OWNS THE PROJECT IS A NONPROFIT GROUP. THE AUTHORITY'S LOAN AMOUNT MUST BE AT LEAST 50% OF TOTAL DEVELOPMENTS COST FOR THE FEDERAL 4% HOUSING TAX CREDIT TO BE AVAILABLE TO ASSIST IN THE FINANCING.**

- B. Determining the Number of HOME Units:** The number of HOME-designated units will be calculated using the amount of HOME funds necessary for project feasibility, as determined by MSHDA (see preceding section), divided by the lesser of the per unit total development cost or the federal HOME subsidy limit, generally not to exceed 11 units. HOME-designated units will be subject to a minimum 20-year affordability period, beginning after project completion.
- C. Income Limits:** A minimum of 10% of the total number of units must be available to or occupied by households with incomes at or below 30% of the area median income, adjusted for family size. Up to 10% of the units may be market rate. The remaining units must be occupied by households with incomes at or below 60% of the area median, adjusted for family size. These income restrictions will satisfy the income limits imposed by the Authority's Act, the Housing Tax Credit Program, and the HOME Investment Partnership Program. ~~and will continue as long as the Authority's mortgage is outstanding.~~ The income of households and the area median gross income shall be determined in a manner consistent with such determinations under Section 8 of the U. S. Housing Act of 1937.

Restrictions requiring the occupancy of units by families with incomes of less than 30% of the area median income may be waived by MSHDA if such a requirement is determined to jeopardize the financial feasibility of the project. In addition, and only where **WHEN** MSHDA determines that it is necessary to maintain the financial feasibility of the project, more than 10% of the units in the development may be designated as market rate rentals, although the HOME funds will be reduced in proportion to the number of market units in excess of 10%.

- D. Rental Restrictions:** Ten percent of the units will be rent restricted (inclusive of an estimate of tenant paid utilities) to 30% of 30% of the area monthly median income. These units will be occupied by Extremely Low Income households with incomes at or below 30% of the area median income, adjusted for family size, as defined by HUD. The restricted rent calculation will be based on an occupancy assumption of one and one half persons per bedroom. This criterion may be waived by MSHDA if its imposition results in the debt financing totaling less than ~~55%~~ **52%** of the total development cost.

Rents (inclusive of an estimate of tenant-paid utilities) on any of the remaining units that are targeted for Tax Credit occupancy **AT THE 60% INCOME LEVEL**, will be restricted to 95% of 30% of 60% of area monthly median income as established by HUD. **UNITS THAT ARE TARGETED FOR TAX CREDIT OCCUPANCY AT LESS THAN 60% INCOME LEVEL, WILL BE RENT RESTRICTED TO 30% OF THAT INCOME LIMIT.** The restricted rent calculation will be based on an occupancy assumption of one and one half persons per bedroom. In some situations, as noted below, the use of HOME funds will require further rental restrictions.

Rental increases during any 12-month period will be limited to not more than 5% of the

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rent paid by the resident household at the beginning of that annual period. Exceptions to this limitation may be granted by the Authority's Director of Asset Management for extraordinary increases in project operating expenses (exclusive of limited dividend payments). Rents on vacated units may be increased to the maximum level permissible by the program.

Notwithstanding the above rental restrictions, all HOME-assisted units in a rental project must be occupied only by households that are eligible as low-income families, defined as families whose annual income does not exceed 60% of the median family income for the area and have rents not to exceed the lesser of the Existing Section 8 Fair Market Rent (FMR) as established by HUD or the high HOME rents as established by HUD. In rental projects with five or more HOME-assisted rental units, 20% of the HOME-assisted units must be occupied by very low-income families and have rents not to exceed the lesser of the FMR, the low HOME rents, or a rent that does not exceed 30% of the annual income of a family whose income equals 50% of the median income for the area, as determined by HUD.

- E. MARKET DETERMINATION: THE MARKET FOR THE DEVELOPMENT AND THE PROPOSED RENTS MUST BE SUPPORTED BY A PROFESSIONAL, INDEPENDENT MARKET ANALYSIS AS DETERMINED BY MSHDA, AND MUST BE SUFFICIENT TO MEET DEBT SERVICE AND NORMAL OPERATING EXPENSES. MSHDA WILL CONTRACT WITH A MARKET ANALYSIS FIRM TO CONDUCT THIS STUDY, WITH THE COST BORNE BY THE MORTGAGOR. THE IMPACT OF THE PROPOSED HOUSING ON OTHER MSHDA DEVELOPMENTS IN THE AREA AND THE DIFFERENTIAL BETWEEN MARKET RENT UNITS AND THE PROPOSED HOUSING WILL BE FACTORS IN ACCEPTING PROPOSALS FOR FINANCING.**
- F. Debt Coverage:** MSHDA requires a minimum debt coverage ratio of 1.10, based on the assessment of risk associated with the development.
- G. Developer Fees:** ~~The total development cost may include a developer fee, subject to the limitations of Michigan's Qualified Allocation Plan under which the Housing Tax Credit is administered. The developer fee for development of 49 units or less is 20% of the total development cost (excluding the developer fee, developer overhead, and consultant fees). The developer fee for tax-exempt loans for projects in excess of 50 units is limited to 15%, not to exceed \$2 million.~~ **FOR ACQUISITION/REHABILITATION OR PRESERVATION PROJECTS OF 49 UNITS OR FEWER, THE COMBINED TOTAL OF THE DEVELOPER FEE, DEVELOPER OVERHEAD, AND ANY CONSULTANT FEES WILL BE LIMITED TO \$2,000,000. THIS SHALL BE CALCULATED AS 20% OF THE TOTAL DEVELOPMENT COST, LESS: DEVELOPER FEE, DEVELOPER OVERHEAD, DEVELOPER CONSULTANT FEE, AND CERTAIN PROJECT RESERVES. FOR PROJECTS OF 50 UNITS OR MORE, THE COMBINED TOTAL OF THE DEVELOPER FEE, DEVELOPER OVERHEAD, AND ANY CONSULTANT FEE SHALL BE LIMITED TO \$2,000,000. THIS SHALL BE CALCULATED AS 10% OF TOTAL ACQUISITION COST OF LAND AND BUILDING(S), AND 15% OF THE TOTAL REHABILITATION COST, LESS: DEVELOPER FEE, DEVELOPER OVERHEAD, DEVELOPER CONSULTANT FEE, AND CERTAIN PROJECT RESERVES.**



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**DEVELOPERS CONTRIBUTING AT LEAST 2.5% OF THEIR ALLOWABLE DEVELOPER FEE TO THE RESIDENT SERVICES FUND WILL BE ALLOWED 15% OF BOTH ACQUISITION AND REHAB COSTS AS DEFINED ABOVE.**

**FOR NEW CONSTRUCTION PROJECTS OF 49 UNITS OR FEWER, THE COMBINED TOTAL OF THE DEVELOPER FEE, DEVELOPER OVERHEAD, AND ANY CONSULTANT FEES SHALL BE LIMITED TO \$2,000,000. THIS SHALL BE CALCULATED AS 20% OF TOTAL DEVELOPMENT COSTS, LESS: DEVELOPER FEE, DEVELOPER OVERHEAD, AND DEVELOPER CONSULTANT FEES. FOR NEW CONSTRUCTION PROJECTS OF 50 UNITS OR MORE, THE COMBINED TOTAL OF THE DEVELOPER FEE, DEVELOPER OVERHEAD, AND ANY CONSULTANT FEES SHALL BE LIMITED TO \$2,000,000. THIS SHALL BE CALCULATED AS 15% OF TOTAL DEVELOPMENT COSTS, LESS: DEVELOPER FEE, DEVELOPER OVERHEAD, AND DEVELOPER CONSULTANT FEES.**

**IF AN EXISTING PROJECT IS SPLIT INTO TWO OR MORE PROJECTS, THE AGGREGATE DEVELOPER FEE FOR ALL PROJECTS CANNOT EXCEED \$2,000,000.**

- H. Operating Assurance Reserve:** At the time of initial disbursement of mortgage loan proceeds, the mortgagor must establish an Operating Assurance Reserve (the "OAR") equal to four months' estimated operating expenses, payments required under the mortgage note, deposits to reserves and other anticipated development expenses. The OAR may be funded with cash or up to 50% with an irrevocable, unconditional letter of credit acceptable to the Authority. To the extent any portion of the OAR is used prior to the final closing of the mortgage loan, the mortgagor must restore the OAR to its original balance at final closing.

The OAR and any interest it accrues will be held by the Authority for a minimum of 15 full years of operation of the development and may be used in accordance with the Authority's written policy on the use of the Operating Assurance Reserve, as amended from time to time.

In the 10<sup>th</sup> year of operation, the OAR will be used to fully fund the replacement reserve needs identified by an independent comprehensive needs analysis and to fully fund any other escrow accounts. If the amount required to fund escrows is represented by a letter of credit, the letter of credit will be drawn upon. The mortgagor may request approval of up to a 50% reduction/release in the remaining OAR. The Director of Asset Management may approve a release and/or reduction, based on a review of the development's operations. All excess amounts released from the OAR (in connection with this or any future release) will be deposited into the development's operating account.

Following the 15th full year of operation, OAR funds that are not needed for funding of the replacement reserve, or other escrows will be available for release to the development's operating account.

- I. Replacement Reserve:** The first year deposit to this reserve is a minimum of \$250 per unit for all senior new construction developments, expressed as a percentage of rental income and increasing over time as rental income increases. The minimum first year

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deposit to the replacement reserve for family new construction or rehabilitation will be equal to \$300 per unit. Development amenities, unit type, or foreseeable replacement of capital items (in the case of rehabilitation) may dictate a higher required deposit.

**FOR ACQUISITION/REHAB PROPOSALS, THE ANNUAL DEPOSIT TO THE REPLACEMENT RESERVE ON THE FIRST FULL YEAR OF THE NEW LOAN WILL NO BE LESS THAN \$300 PER UNIT. FURTHERMORE, AT THE MORTGAGE LOAN CLOSING THE SPONSOR MUST DEPOSIT THE GREATER OF \$700 PER UNIT, OR AN AMOUNT DETERMINED TO SATISFY THE REQUIREMENTS OF THE AUTHORITY APPROVED CAPITAL NEEDS ASSESSMENT OVER A 20 YEAR PERIOD.**

- J. OPERATING DEFICIT RESERVE: AN OPERATING DEFICIT RESERVE (ODR) MAY BE REQUIRED BASED ON A CASH FLOW ANALYSIS OVER A 20-YEAR PERIOD. WHEN REQUIRED, THE MORTGAGOR MUST ENTER INTO AN AGREEMENT AND ESTABLISH AN ODR WITH THE AUTHORITY WITH AN INITIAL DEPOSIT AT CLOSING. THE ODR SHALL BE FUNDED IN CASH, HELD AND CONTROLLED BY THE AUTHORITY AND WILL BE INVESTED AND REINVESTED BY THE AUTHORITY'S OFFICE OF FINANCE. INTEREST EARNED ON THIS RESERVE, IF ANY, SHALL BECOME PART OF THIS RESERVE AND SHALL BE TREATED AND DISBURSED IN THE SAME WAY.**

**THE AMOUNT DISBURSED ANNUALLY FROM THE ODR WILL BE THE ANNUAL PROJECTED BUDGET DEFICIT AS SHOWN ON CASH FLOW ANALYSIS ESTABLISHING THE ODR. EACH MONTH THE AUTHORITY WILL WITHDRAW 1/12TH OF THE PROJECTED ANNUAL DEFICIT FOR THAT SPECIFIC YEAR FROM THE ODR, AND WILL APPLY IT AGAINST THE MORTGAGE PAYMENT DUE THAT MONTH. THE ANNUAL DISBURSEMENT WILL REMAIN UNCHANGED UNTIL THE MORTGAGOR REQUESTS AN INCREASE, WHICH CAN BE MADE UP TO THE AMOUNT ON ATTACHMENT A FOR THAT YEAR. THIS WILL CONTINUE EACH YEAR UNTIL THE ODR HAS BEEN DEPLETED OR THE AUTHORITY'S MORTGAGE LOAN(S) ARE PAID IN FULL.**

**IN THE EVENT THAT THE DEVELOPMENT EXPERIENCES AN OPERATING DEFICIT THAT IS GREATER THAN THAT PROJECTED, THE MORTGAGOR MAY REQUEST THAT THE AUTHORITY INCREASE THE AMOUNT DRAWN FROM THE ODR. THE DIRECTOR OF ASSET MANAGEMENT MUST APPROVE THE REQUEST. HOWEVER, THE MORTGAGOR SHALL NOT BE ENTITLED TO RECEIVE A LIMITED DIVIDEND PAYMENT FOR ANY YEAR IN WHICH THE AMOUNT DRAWN FROM THE ODR IS GREATER THAN THE AMOUNT IDENTIFIED IN ATTACHMENT A FOR THAT YEAR, UNTIL THE BALANCE OF THE ODR IS RESTORED TO THE APPROPRIATE LEVEL.**

**AT THE EARLIER OF THE TIME WHEN THE ODR HAS BEEN DEPLETED OR DURING THE 20TH YEAR AFTER MORTGAGE LOAN CLOSING, THE AUTHORITY WILL DETERMINE THE ANNUAL PROJECTED OPERATING DEFICITS AND THE TOTAL AMOUNT SUFFICIENT TO FUND PROJECTED OPERATING DEFICITS THROUGH THE REMAINING TERM OF THE AUTHORITY'S MORTGAGE LOAN(S).**

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THE MORTGAGOR MUST DEPOSIT THIS AMOUNT IN CASH INTO THE ODR, TO BE HELD BY THE AUTHORITY AND DISBURSED AS NOTED ABOVE. FAILURE TO REPLENISH THE ODR, WHEN REQUIRED BY THE AUTHORITY, SHALL CONSTITUTE A DEFAULT ON THE MORTGAGE LOAN. IN THE EVENT THAT THE AUTHORITY'S MORTGAGE LOAN IS ACCELERATED AFTER A DEFAULT IN THE TERMS OF THE MORTGAGE, NOTES OR REGULATORY AGREEMENT, THE AUTHORITY, IN ITS SOLE DISCRETION, MAY, BUT IS NOT REQUIRED TO, APPLY ANY FUNDS ON DEPOSIT IN THE ODR, TO THE AMOUNT DUE ON THE MORTGAGE LOANS AS ACCELERATED.

AT SUCH TIME AS THE AUTHORITY'S MORTGAGE LOAN(S) AND ALL OTHER FINANCIAL OBLIGATIONS TO THE AUTHORITY ARE PAID IN FULL, THE REMAINING BALANCE OF THE ODR, INCLUDING ALL INTEREST THAT HAS ACCUMULATED, WILL BE DISBURSED TO THE MORTGAGOR.

- K. **VACANCY LOSS:** VACANCY LOSS WILL BE BUDGETED, AT A MINIMUM, AT 7% OF THE GROSS RENTAL POTENTIAL. AT MSHDA'S DISCRETION, IN CERTAIN MARKETS, A HIGHER VACANCY LOSS MAY BE REQUIRED.
- L. **Limitation for Return on Equity:** ~~Limited dividend distributions (return on equity) will be limited to 12% for the first year, commencing with the cut-off date, and will increase by 1% per year until a cap of 25% is reached. The return is fully cumulative.~~

~~Total Development Cost shall include all costs incurred in the development and construction of the project as supported by the mortgagor's cost certification. Equity shall include all cash investment by any partner. Equity does not include any grant funds or any secondary, non-amortizing financing from sources such as HOME, CDBG, and the Federal Home Loan Bank Affordable Housing program.~~

**LIMITED DIVIDEND CALCULATION:** MSHDA'S STATUTE LIMITS THE RETURN AN OWNER CAN EARN ON THE EQUITY INVESTMENT IN THE PROJECT. EQUITY IS DEFINED AS TOTAL DEVELOPMENT COST, LESS MSHDA MORTGAGE AND LESS ANY GRANTS AND "SOFT" OR NON-AMORTIZING SECONDARY FINANCING. A RETURN ON THE EQUITY CONTRIBUTION OF THE OWNER WILL BE LIMITED TO 12% PER YEAR FOLLOWING THE CUT-OFF DATE. THE RETURN IS FULLY CUMULATIVE.

- M. **Construction Contract Allowances:** Line item allowances within the construction contract for builder profit, builder overhead, and general requirements may not exceed an aggregate of 20% of the total construction contract amount.
- N. **Debt Coverage:** MSHDA requires a minimum debt coverage ratio of 1.10, based on the assessment of risk associated with the development.
- O. **Rent-Up Allowance:** For new construction or vacant acquisition and rehabilitation proposals, a Rent-up Allowance is required. Rent-up period interest is included in the mortgage beyond the construction period. The Rent-Up Allowance typically supports three **UP** to six months of interest. In situations where a rent-up period in excess of three **SIX** months is projected to achieve ~~60% occupancy~~ **80% OF RENT POTENTIAL**, MSHDA may, at its sole discretion, extend the rent-up period requiring that additional

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interest, along with additional insurance, tax, and marketing expenses be budgeted and supported by the mortgage until development operations can reasonably be expected to support both operations and these expenses.

The mortgagor may elect to provide cash, an unconditional, irrevocable letter of credit, or other security acceptable to the Director of Finance for this additional expense. The mortgagor may, upon achieving ~~60% occupancy~~ **80% OF RENT POTENTIAL** as described above, and providing evidence of 12 month leases at rents at least equal to the rents stipulated in the commitment proforma, without rent concessions, request in writing that the letter of credit or other security be released.

For occupied acquisition and rehabilitation proposals, one month's gross rent potential is required to be deposited to the operating account of the development at closing, **AND OTHER RE-MARKETING OR TRANSITIONAL OPERATING RESERVES MAY BE REQUIRED.**

- P. MSHDA Design Standards/Site Selection Criteria:** Projects will be required to be designed and constructed according to MSHDA's Standards of Design with exceptions as listed in Design Appendix C, **AND SITE SELECTION CRITERIA AGAINST WHICH ALL PROPOSED DEVELOPMENT SITES ARE REVIEWED. THE DESIGN STANDARDS , APPENDIX C, AND THE SITE CRITERIA ARE AVAILABLE ON MSHDA'S WEB SITE.** The sponsor's architect will be required to certify compliance of the plans and specifications with the design standards.
- Q. CONSTRUCTION CONTINGENCIES: CONSTRUCTION CONTINGENCIES WILL BE REQUIRED FOR ALL PROPOSALS INVOLVING REHABILITATION, WITH THE REQUISITE CONTINGENCY AMOUNT DETERMINED ON A CASE-BY-CASE BASIS. REHABILITATION CONTINGENCIES OF 10 PERCENT OF THE CONSTRUCTION CONTRACT AMOUNT SHOULD BE ANTICIPATED. GENERALLY, THESE FUNDS WILL BE A LINE ITEM IN THE DEVELOPMENT BUDGET WITHIN "SOFT COST" AND NOT PART OF THE CONSTRUCTION CONTRACT. FOR NEW CONSTRUCTION, A CONSTRUCTION CONTINGENCY WILL NOT BE REQUIRED UNLESS UNUSUAL SITE CONDITIONS ARE ANTICIPATED (SUCH AS BURIED DEBRIS OR ENVIRONMENTAL REMEDIATION). CONTINGENCY FUNDS ARE ALLOWED IF REQUIRED BY THE EQUITY PARTNER.**
- R. NO RELOCATION: INVOLUNTARY PERMANENT RELOCATION OF EXISTING RESIDENTS IS NOT PERMITTED.**
- S. Syndication and other Equity Pay-In:** A consultation between the mortgagor, MSHDA, and the syndicator is recommended to determine an **MSHDA'S ASSIGNED HDO WILL FACILITATE A CONSULTATION PROCESS WITH THE SPONSOR, APPROPRIATE MSHDA STAFF, AND THE SPONSOR'S SYNDICATOR IN ORDER TO ARRIVE AT A MUTUALLY** acceptable and detailed schedule setting forth **BOTH** the timing of the anticipated payment of all costs necessary to complete the development, and achieve sustaining occupancy. ~~This schedule must further compare the "uses" of funds over time with the proposed availability of "sources" of funds. It is expected that 75% of all general project costs be paid in by 50% construction completion and 100% by 75% completion.~~

## HOME TEAM Advantage Lending Parameters (Tax-exempt and HOME)

~~Conditions to any non-MSHDA source of funds will be reviewed and may be rejected if these conditions jeopardize the availability of the funding when it is needed. With the exception of payments of developer fees directly from the equity partner to the mortgagor, all non-MSHDA sources of funding must be deposited with and disbursed through MSHDA.~~

At its discretion, MSHDA may provide construction financing to bridge equity pay-ins. **ALONG WITH THE SOURCES OF SUCH PAYMENTS. THIS FACILITATION SHALL TAKE PLACE SHORTLY AFTER THE MSHDA BOARD APPROVES THE FEASIBILITY/COMMITMENT REPORT AND WILL BE SPECIAL CONDITION OF THAT REPORT. A MORTGAGE LOAN CLOSING WILL NOT BE SCHEDULED UNTIL THERE IS AN AGREEMENT AMONG THE PARTIES AS TO THE SCHEDULE OF FUNDING.**

**IT IS EXPECTED THAT MSHDA SHALL RECEIVE SUFFICIENT EQUITY AND OTHER CONTRIBUTIONS TO ASSURE THAT WHEN COMBINED WITH MORTGAGE LOAN PROCEEDS, THERE WILL BE SUFFICIENT FUNDS TO ASSURE PAYMENT OF DEVELOPMENT COSTS DURING CONSTRUCTION. MSHDA WILL WORK WITH BOTH THE SPONSOR AND THE SYNDICATOR ON TIMING ISSUES AND WORK TO IDENTIFY MUTUALLY AGREEABLE SOLUTIONS TO FILL FUNDING GAPS AS APPROPRIATE TO THE PARTICULAR SITUATION. HOWEVER, IN NO EVENT WILL MSHDA AGREE TO A CONDITION(S) THAT IT DETERMINES JEOPARDIZE THE AVAILABILITY OF FUNDING WHEN IT IS NEEDED. WITH THE EXCEPTION OF PAYMENTS OF DEVELOPER FEES DIRECTLY FROM THE EQUITY PARTNER TO THE MORTGAGOR, ALL NON-MSHDA SOURCES OF FUNDS MUST BE DEPOSITED WITH AND DISBURSED THROUGH MSHDA.**

### IV. Other Information:

- A. **Fees:** A non-refundable application fee of \$1,000 must be submitted with any proposal for mortgage loan financing. Additionally, a non-refundable filing fee of .5% of the proposed mortgage amount will be charged for projects presented to the Authority Board for a combined Mortgage Loan Feasibility/Commitment authorization. The non-refundable filing fee is credited toward a 2% commitment fee that is paid at the initial loan closing.
- B. **Labor Standards:** Every contract for the construction of housing under this program that includes 12 or more HOME-designated units must contain a provision requiring the payment of not less than the wages prevailing in the locality, as predetermined by the Secretary of Labor pursuant to the Davis-Bacon Act, to all laborers and mechanics employed in the development of any part of the housing.
- C. **Equal Opportunity:** MSHDA requires a plan from:
  - The **PRIME Contractor IS** to provide equal opportunities **EQUAL OPPORTUNITY PLAN** for minority and female-owned subcontractors and material suppliers and to provide jobs for minority and female members of the

**HOME TEAM Advantage Lending Parameters  
(Tax-exempt and HOME)**

**WORKFORCE TRADE UTILIZATIONS AND FOR BUSINESS CONTRACTING ENTERPRISES TO SUBCONTRACTORS AND MATERIAL SUPPLIERS; and**

- The management agent to aggressively and affirmatively market the housing to minority groups.
- D. Cost Certification:** The contractor and mortgagor must submit timely certifications of the actual costs incurred in developing and building the project..
- E. LOAN MANAGEMENT:** MSHDA'S OFFICE OF ASSET MANAGEMENT MONITORS A DEVELOPMENT'S OPERATIONS FOR COMPLIANCE WITH CONTROLLING LOAN DOCUMENTS AND ITS FINANCIAL AND PHYSICAL CONDITION THROUGH A VARIETY OF REPORTING SYSTEMS. THESE SYSTEMS INCLUDE ELECTRONIC SUBMISSION OF MONTHLY INCOME AND EXPENSE STATEMENTS, REVIEW AND APPROVAL OF ANNUAL BUDGETS AND AUDITS, APPROVAL OF THE USE OF RESERVES, AND OTHER REQUIRED REPORTS. A DEVELOPMENT'S COMPLIANCE WITH RESIDENT INCOME ELIGIBILITY, RENTAL RESTRICTIONS, AND PHYSICAL INSPECTIONS IS MONITORED BY MSHDA'S COMPLIANCE DIVISION.
- F. Application processing:** A six-month processing time from application to closing is anticipated. Proposals ~~not submitting~~ **FAILING TO SUBMIT FEASIBILITY MATERIALS** within 60 days of acceptance will be removed from the active pipeline. **EXPEDITED PROCESSING OPTION IS AVAILABLE UPON REQUEST**
- G. Typical Processing Steps:**
- Preliminary conference (optional)
  - Within 30 days of receipt of proposal, staff makes initial determination of site acceptability and development team capability and if acceptable issues letter of acceptance for processing (lock of rate and Preservation Fund and HOME funds for 9 months)
  - **MORTGAGOR SUBMITS** ~~Within 30 days of receipt of feasibility materials (market study, environmental Phase I, preliminary soil borings, feasibility level drawings, and operating numbers), staff recommends Mortgage loan feasibility (Board action)~~ **FEASIBILITY MATERIALS WITHIN 60 DAYS OF ACCEPTANCE OR APPLICATION IS CONSIDERED INACTIVE.**
  - **WITHIN 60 DAYS OF RECEIPT OF FEASIBILITY MATERIALS, STAFF WILL COMPLETE FEASIBILITY LEVEL ANALYSIS AND PRESENT TO LOAN COMMITTEE FOR ACTION.**
  - **IF ACCEPTABLE, NOTICE TO PROCEED IS ISSUED**
  - **WITHIN 60 DAYS OF RECEIPT OF COMMITMENT MATERIALS, STAFF WILL COMPLETE COMMITMENT LEVEL ANALYSIS AND PRESENT TO LOAN COMMITTEE FOR ACTION.**
  - **IF ACCEPTABLE, A RECOMMENDATION IS MADE FOR BOARD APPROVAL FOR AUTHORIZATION OF MORTGAGE LOAN FEASIBILITY AND COMMITMENT.**
  - Award of 9% LIHTC
  - **LOAN CLOSING**

**HOME TEAM Advantage Lending Parameters  
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- H. **Inactive Applications:** A HOUSING DEVELOPMENT OFFICER, IN CONSULTATION WITH THE MSHDA DEVELOPMENT MANAGER AND DIRECTOR OF MULTIFAMILY DEVELOPMENT WILL DETERMINE AN APPLICATION TO BE INACTIVE AND PLACE IT IN THE "INACTIVE" PIPELINE IF THE SPONSOR IS UNABLE TO SUBMIT MATERIALS REQUIRED FOR CONTINUED PROCESSING IN A TIMELY MANNER (GENERALLY, 30 DAYS FROM THE REQUEST FOR SUCH MATERIALS). ADDITIONALLY, SPONSORS MAY REQUEST THAT AN APPLICATION BE MADE "INACTIVE" FOR ANY REASON.

WHEN AN APPLICATION IS PLACED IN "INACTIVE" STATUS, IT LOSES ITS INTEREST RATE LOCK. THE INTEREST RATE FOR AN "INACTIVE" APPLICATION WILL BE DETERMINED UPON RE-ACTIVATION. AN "INACTIVE" STATUS DOES, HOWEVER, ACT AS A PLACEHOLDER FOR THE MARKET. AS LONG AS AN APPLICATION IS IN THE "INACTIVE" PIPELINE, NO NEW APPLICATION FOR THE SAME DEVELOPMENT TYPE WILL BE CONSIDERED FOR THIS MARKET, WITHOUT THE SPONSOR OF THE INACTIVE APPLICATION FIRST HAVING A CHANCE TO RESOLVE THE INACTIVE STATUS.

HOME FUNDS WILL NOT BE HELD FOR APPLICATIONS IN THE INACTIVE PIPELINE.

UPON RECEIPT OF ANOTHER, NEW APPLICATION IN THE SAME MARKET AREA, MSHDA WILL IMMEDIATELY NOTIFY BOTH THE NEW APPLICANT AND THE SPONSORS OF ANY INACTIVE APPLICATION(S) IN THAT MARKET AREA. SPONSORS WITH AN APPLICATION IN THE "INACTIVE" PIPELINE MUST:

- NOTIFY MSHDA IN WRITING THAT THEY WISH TO ACTIVATE THE APPLICATION WITHIN FOURTEEN DAYS OF THE DATE OF THE NOTICE, AND
- SUBMIT ALL OUTSTANDING DOCUMENTATION REQUIRED FOR PROCESSING WITHIN THIRTY (30) DAYS OF THE DATE OF NOTICE.

IF THE SPONSOR SATISFIES BOTH OF THESE CONDITIONS, THE APPLICATION WILL BE REACTIVATED. IF THE SPONSOR FAILS TO SATISFY EITHER OF THE CONDITIONS ABOVE, THE "INACTIVE" APPLICATION BECOMES VOID AND THE NEW APPLICATION WILL BE REVIEWED. THE SPONSOR OF THE NEW APPLICATION WILL BE NOTIFIED OF THE HOLD ON THEIR APPLICATION, PENDING DISPOSITION OF THE INACTIVE APPLICATION AND MAY CHOOSE TO BE PLACED IN THE INACTIVE PIPELINE UNTIL THE COMPETING APPLICATION HAS RECEIVED MORTGAGE LOAN COMMITMENT.

THE MAXIMUM AMOUNT OF TIME ANY APPLICATION WILL BE CONSIDERED "INACTIVE" IS SIX (6) MONTHS FROM THE DATE IT BECOMES INACTIVE. AFTER SIX (6) MONTHS, THE APPLICATION WILL BE REMOVED AND CONSIDERED VOID.

TO ACTIVATE AN APPLICATION PREVIOUSLY CONSIDERED "INACTIVE", THE SPONSOR MUST SUBMIT WRITTEN INTENT TO MSHDA. ALL REQUIRED DOCUMENTATION MUST BE SUBMITTED WITHIN 30 DAYS OF THE DATE OF THIS LETTER OF INTENT OR THE APPLICATION IS VOID. NO ADDITIONAL FEES ARE

**HOME TEAM Advantage Lending Parameters  
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**REQUIRED TO ACTIVATE AN APPLICATION; HOWEVER, MSHDA MAY, AT ITS SOLE DISCRETION, DECLINE TO ACTIVATE ANY APPLICATION AND/OR MAY REMOVE ANY APPLICATION FROM ITS PIPELINE.**

- I. Unique Circumstances:** Developers are encouraged to discuss unique development opportunities not within these parameters with MSHDA Multifamily Development staff to determine the potential for waiver of certain of these parameters.



## Taxable Lending Parameters (Including Preservation)



April 26, 2006 **September 26, 2007**

MSHDA offers taxable loans for the development of affordable rental housing. Loans will be provided to the extent the following objectives are met:

1. Create affordable housing, achieving at least one of the following public benefits:
  - Family units serving a proportion of low income households, or
  - Senior housing, including proposals supporting successful aging in place, or
  - **HOUSING IN Rural housing, COMMUNITIES**, or
  - Supportive housing integrated and supported by necessary services, or
  - Workforce housing provided in high-cost areas, or
  - Mixed use buildings supporting downtown housing, or
  - **MEETS THE NEEDS OF** Native American housing. ~~needs are addressed.~~
2. The housing must contribute to the strengthening of communities through site and design standards.
3. The **LONGEST** term of affordability ~~must be at least 35 years~~ **POSSIBLE**.
4. The loan must be a long-term earning asset.

These parameters describe lending available for new construction, substantial rehabilitation/adaptive reuse and the acquisition and rehabilitation of conventionally financed rental housing. Combined construction and permanent lending is provided and MSHDA retains long-term portfolio oversight. Project requirements, interest rates, and gap funding vary by location of the property, population to be served, income targeting, and resource availability.

### I. Eligibility and Resource Availability:

- A. **Project Size:** Typical projects range between 24-150 units, although exceptions will be considered for rehabilitation proposals.
- B. **Ineligible Projects:** Nursing homes, adult foster care homes, student housing, transient housing, or single room occupancy.
- ~~C. **Income Restrictions:** Typically all units are targeted to 60% of area median income and below, but mixed income housing is permissible in cases where at least 20% of the units are affordable to households at 50% of area median income or 40% of the units are affordable to households at 60% of area median income.~~
- C. **D. Eligible Borrowers:** A sponsor/developer may be a nonprofit, an individual, a group of individuals, a corporate entity, or some combination. ~~However,~~ **PRIOR TO MORTGAGE LOAN COMMITMENT**, a legal entity must be formed that is an "eligible borrower" under the Authority's Act. ~~prior to mortgage loan commitment.~~
- D. **MINIMUM REHAB: FOR ACQUISITION/REHAB PROPOSALS, AT LEAST \$10,000 IN REHAB/UNIT AND 15% OF ACQUISITION COST REQUIRED, WITH EMPHASIS ON IMPROVEMENTS BENEFITING RESIDENTS (CAPITAL NEEDS ASSESSMENT REQUIRED).**
- E. **Michigan Green Communities Grant:** A grant of \$1,000 per affordable unit, up to a

## Taxable Lending Parameters (Including Preservation)

maximum of \$50,000 **PER PROJECT**, is available from MSHDA for developments meeting the Michigan Green Communities criteria. The Enterprise Foundation will match funds and a \$3,000 grant is provided for administrative reporting.

- F. Preservation Fund Loan:** In the event the Authority determines a preservation transaction will not adequately address unmet physical needs, a Preservation Fund (PF) loan may be available at 3% simple interest. **IF LESS THAN 40% OF DEVELOPER FEE IS DEFERRED**, monthly payments based on a 50-year amortization will be due until the end of the first mortgage. At the end of the first mortgage term, the outstanding balance of the PF loan, including accrued interest, will become the new first mortgage and begin amortization with monthly mortgage payments equal to the payments under the original first mortgage, **WITH THE BALANCE OF PRINCIPLE AND ALL INTEREST DUE AT THE EARLIER OF SALE OF THE DEVELOPMENT, REFINANCING OF THE MORTGAGE LOAN OR 50 YEARS AFTER CLOSING.**

If more than 40% of the allowable developer fee is deferred, the developer has two Preservation Fund Loan options:

- a. Interest will accrue, but PF loan amortization may be deferred until the deferred developer fee has been paid, but no later than the end of the 12<sup>th</sup> year. Beginning ~~in~~ **AT the EARLIER OF THE YEAR IN WHICH THE DEVELOPER FEE HAS BEEN PAID IN FULL OR IN THE 13<sup>th</sup> year**, annual payments will be made from ~~available cash flow~~ **TWENTY-FIVE PERCENT OF ANY SURPLUS CASH AVAILABLE FOR DISTRIBUTION TO THE OWNER**, applied first to accrued interest, then to current interest and principal, **WITH THE BALANCE OF PRINCIPAL AND ALL INTEREST DUE AT THE EARLIER OF SALE OF THE DEVELOPMENT, REFINANCING OF THE MORTGAGE LOAN OR 50 YEARS AFTER CLOSING.**
- b. If the developer agrees to contribute at least 3% of the allowable developer fee to the Resident Services Fund, MSHDA will allow a PF loan sufficient to reduce the deferred developer fee to 30%. Interest will accrue, but PF loan amortization may be deferred until the deferred developer fee has been paid, but no later than the end of the 12<sup>th</sup> year. Beginning ~~in~~ **AT the EARLIER OF THE YEAR IN WHICH THE DEVELOPER FEE HAS BEEN PAID IN FULL OR IN THE 13<sup>th</sup> year**, annual payments will be made from ~~available cash flow~~ **TWENTY-FIVE PERCENT OF ANY SURPLUS CASH AVAILABLE FOR DISTRIBUTION TO THE OWNER**, applied first to accrued interest, then to current interest and principal, **WITH THE BALANCE OF PRINCIPAL AND ALL INTEREST DUE AT THE EARLIER OF SALE OF THE DEVELOPMENT, REFINANCING OF THE MORTGAGE LOAN OR 50 YEARS AFTER CLOSING.**

At the end of the first mortgage term, the outstanding balance of the PF loan, including accrued interest, will become the new first mortgage and begin amortization with monthly mortgage payments equal to the payments under the original first mortgage. Affordability restrictions apply for 50 years, **WITH THE BALANCE OF PRINCIPAL AND ALL INTEREST DUE AT THE EARLIER OF SALE OF THE DEVELOPMENT, REFINANCING OF THE MORTGAGE LOAN OR 50 YEARS AFTER CLOSING.**

- G. HOME Loans:** A HOME loan may be available at 3% simple interest for gap funding for:

- Small-scale development (less than ~~48~~ **50** units), particularly in rural areas,

## Taxable Lending Parameters (Including Preservation)

- Very low-income family housing units in urban areas (minimum of 10% of project),
- Integrated supportive housing units,
- ~~Marquis or signature~~ **NEW ECONOMY/Downtown** housing developments,
- Native American housing,
- Workforce housing in high-cost, growth areas.

The minimum amount of HOME assistance will be \$1,000 per **HOME-ASSISTED** unit. The maximum amount of HOME assistance will not exceed the lesser of (1) the equity gap as determined by MSHDA or (2) \$25,000 per unit in the development.

Local contributions, such as tax abatement, infrastructure investments in sidewalks, improved roadways, ~~and~~ **OR** local redevelopment efforts that contribute to the housing project and/or sponsor capital contributions will be required.

**IF LESS THAN 40% OF DEVELOPER FEE IS DEFERRED**, monthly payments based on a 50-year amortization will be due until the end of the first mortgage. At the end of the first mortgage term, the outstanding balance of the HOME loan, including accrued interest, will become the new first mortgage and begin amortization with monthly mortgage payments equal to the payments under the original first mortgage, **WITH THE BALANCE OF PRINCIPAL AND ALL INTEREST DUE AT THE EARLIER OF SALE OF THE DEVELOPMENT, REFINANCING OF THE MORTGAGE LOAN OR 50 YEARS AFTER LOAN CLOSING.**

If more than 40% of the allowable developer fee is deferred, the developer has two options related to the HOME loan:

- a. Interest will accrue, but HOME loan amortization may be deferred until the deferred developer fee has been paid, but no later than the end of the 12<sup>th</sup> year. Beginning ~~in~~ **AT the EARLIER OF THE YEAR IN WHICH THE DEVELOPER FEE HAS BEEN PAID IN FULL OR IN THE 13<sup>th</sup> year FROM THE DATE OF MORTGAGE LOAN CUT-OFF**, annual payments will be made from available cash flow **TWENTY-FIVE PERCENT OF ANY SURPLUS CASH AVAILABLE FOR DISTRIBUTION TO THE OWNER**, applied first to accrued interest, then to current interest and principal, **WITH THE BALANCE OF PRINCIPAL AND ALL INTEREST DUE AT THE EARLIER OF SALE OR THE DEVELOPMENT, REFINANCING OF THE MORTGAGE LOAN OR 50 YEARS AFTER CLOSING.**
- b. If the developer agrees to contribute at least 3% of the allowable developer fee to the Resident Services Fund, MSHDA will allow a HOME loan sufficient to reduce the deferred developer fee to 30%. Interest will accrue, but HOME loan amortization may be deferred until the deferred developer fee has been paid, but no later than the end of the 12<sup>th</sup> year. Beginning ~~in~~ **AT the EARLIER OF THE YEAR IN WHICH THE DEVELOPER FEE HAS BEEN PAID IN FULL OR IN THE 13<sup>th</sup> year**, annual payments will be made from available cash flow, **TWENTY-FIVE PERCENT OF ANY SURPLUS CASH AVAILABLE FOR DISTRIBUTION TO THE OWNER**, applied first to accrued interest, then to current interest and principal, **WITH THE BALANCE OF THE PRINCIPAL AND ALL INTEREST DUE AT THE EARLIER OF SALE OF THE DEVELOPMENT, REFINANCING OF THE MORTGAGE LOAN OR 50 YEARS AFTER CLOSING.**

## **Taxable Lending Parameters** (Including Preservation)

At the end of the first mortgage term, the outstanding balance of the HOME loan, including accrued interest, will become the new first mortgage and begin amortization with monthly mortgage payments equal to the payments under the original first mortgage. Affordability restrictions apply for 50 years, **WITH THE BALANCE OF PRINCIPAL AND ALL INTEREST DUE AT THE EARLIER OF SALE OF THE DEVELOPMENT, REFINANCING OF THE MORTGAGE LOAN OR 50 YEARS AFTER CLOSING.**

- H. Resident Services Fund:** This fund will be administered by a 501c3 non-profit created for this purpose or some other entity, as approved by MSHDA, for the purpose of funding supportive services such as youth development activities, job training and placement, service coordinators in senior housing, child care services, or other necessary and appropriate resident services. Any affordable rental housing development in Michigan is eligible to apply for funding from the RSF.
- I. OTHER: OTHER ELIGIBILITY REQUIREMENTS INCLUDE THE THRESHOLD REQUIREMENTS IDENTIFIED IN THE QUALIFIED ALLOCATION PLAN.**

### **II. Interest Rate and Term:**

- A. Rate:** The 10-year US Treasury Note plus 240 basis points, fully amortizing over a 35-year loan term. Construction loans are offered **NEGOTIATED** at the same interest rate **TIME OF THE TRANSACTION**. The interest rate charged by MSHDA depends upon bond market conditions and may change from time to time. Current rates are published on MSHDA's Web site. The rate quoted when a proposal is accepted for processing will not be subject to increase for six months. Typically MSHDA will bear the cost of any risk-sharing insurance, should it be required, within this rate.
- B. ~~Special Rate~~ CONCESSIONS AND INDUCEMENTS:** A 1/2 percent rate deferral **REDUCTION** may be available if at least 15% of the units are affordable to a targeted population with services to be provided in accordance with a MSHDA-approved Addendum III supportive services plan. This ~~deferral~~ **REDUCTION** will be forgiven if an acceptable level of services continues for the term of affordability and **THE RATE** will be eliminated **RAISED** in the event services are not provided. **INTEREST RATE DEFERRAL MAY BE AVAILABLE IN CERTAIN MSHDA-DESIGNATED COMMUNITIES, SUCH AS CITIES OF PROMISE AND VERY LOW INCOME COUNTIES. IN PROJECTS WHERE AN INTEREST RATE DEFERRAL IS GIVEN, THE DEFERRED INTEREST SHALL BE REPAYED ANNUALLY, USING THE REPAYMENT TERMS NOTED ABOVE FOR THE HOME OR PRESERVATION FUND LOAN, HOWEVER, ALL DEFERRED INTEREST ON THE FIRST MORTGAGE WILL BE DUE AND PAYABLE ON THE MATURITY DATE OF THE FIRST MORTGAGE. NO ANNUAL DEBT SERVICE WILL BE DUE ON THE HOME OR PRESERVATION FUND LOAN WHILE THE FIRST MORTGAGE IS OUTSTANDING, BUT AT THE END OF THE FIRST MORTGAGE TERM, THE OUTSTANDING BALANCE OF THE HOME OR PRESERVATION FUND LOAN, INCLUDING ACCRUED INTEREST, WILL BECOME THE NEW FIRST MORTGAGE AND BEGIN AMORTIZATION WITH MONTHLY MORTGAGE PAYMENTS EQUAL TO THE PAYMENTS UNDER THE ORIGINAL FIRST MORTGAGE, WITH THE BALANCE OF PRINCIPAL AND ALL INTEREST DUE AT THE EARLIER OF SALE OF THE DEVELOPMENT, REFINANCING OF THE MORTGAGE LOAN OR 50 YEARS AFTER CLOSING.**
- C. Risk-sharing: LOAN INSURANCE:** MSHDA reserves the right to require the

## Taxable Lending Parameters (Including Preservation)

submission of documents necessary to obtain HUD risk-sharing (50/50) **OR FULL FHA** insurance. Typically MSHDA will bear the cost of any risk-sharing insurance, should it be required. If the mortgagor requests risk-sharing insurance, the premium cost will be borne by the mortgagor.

- D. Term/Prepayment:** The ~~35-year~~ **AUTHORITY-FIRST** mortgage is not eligible for prepayment. After the 15<sup>th</sup> year, MSHDA may, **AT ITS SOLE DISCRETION**, allow prepayment of the mortgage after consultation with the owner regarding the development's physical and financial needs. ~~Factors to be considered include the ability to access additional funds to address capital needs and changing partnership interests.~~ In the event MSHDA permits a prepayment, the mortgagor must pay a 1% prepayment penalty plus any bond call premium, prepayment or swap penalty **AND LOSS OF SPREAD BETWEEN THE LOAN AND BOND RATE USED TO FINANCE THE LOAN FROM THE DATE OF THE PREPAYMENT THROUGH END OF THE 20<sup>TH</sup> YEAR OF AMORTIZATION.**

**A MORTGAGOR INTERESTED IN PREPAYING A MORTGAGE WILL BE RESPONSIBLE FOR PAYING ANY COSTS ASSOCIATED WITH TERMINATION OF AN EQUAL AMOUNT OF AN INTEREST RATE SWAP AGREEMENT (SWAP). ONCE THE MORTGAGOR HAS BEEN APPROVED FOR THE EARLY PREPAYMENT OF THE UNDERLYING LOAN, THEY WILL SIGN AN AGREEMENT WITH MSHDA STATING THEY ARE RESPONSIBLE FOR THE COST OF TERMINATING THE SWAP. THE MORTGAGOR CAN THEN CHOOSE THE TIMING OF THE TERMINATION AND PARTICIPATE IN THE TRANSACTION WITH THE SWAP COUNTERPARTY (LEHMAN, MERRILL LYNCH OR GOLDMAN SACHS). THE SWAP COUNTERPARTY WILL QUOTE THE COST OF TERMINATING THE SWAP AND THE MORTGAGOR WILL HAVE THE ABILITY TO EXECUTE THE TRANSACTION OR CANCEL AT THEIR SOLE DISCRETION. IF THE MORTGAGOR CHOOSES NOT TO TERMINATE THE SWAP, THEY WILL FORFEIT THE RIGHT TO PREPAY THE MORTGAGE.**

- E. Affordability Restrictions:** ~~Affordability restrictions must extend for the term of the originally scheduled mortgage(s) 35-years, or 50-years if a Preservation Fund or HOME loan is provided~~ **IMPOSED AT THE CLOSING OF THE MORTGAGE LOAN MUST REMAIN IN PLACE FOR 90 YEARS.**

### **III. Underwriting Standards:**

- A. Loan Limits:** Under the Taxable Bond program, MSHDA's loans are limited to 70 percent of total development cost or 110 percent of the applicable for-profit HUD 221(d)(3) Mortgage Limits, whichever is the lower.
- B. DETERMINING THE NUMBER OF HOME UNITS:** **IF A HOME LOAN IS PROVIDED, THE NUMBER OF HOME-DESIGNATED UNITS WILL BE CALCULATED USING THE AMOUNT OF HOME FUNDS NECESSARY FOR PROJECT FEASIBILITY, AS DETERMINED BY MSHDA (SEE PRECEDING SECTION), DIVIDED BY THE LESSER OF THE PER UNIT TOTAL DEVELOPMENT COST OR THE FEDERAL HOME SUBSIDY LIMIT, GENERALLY NOT TO EXCEED 11 UNITS. HOME-DESIGNATED UNITS WILL BE SUBJECT TO A MINIMUM 20-YEAR AFFORDABILITY PERIOD, BEGINNING AFTER PROJECT COMPLETION.**

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~~C. Debt Coverage:~~ MSHDA requires a debt coverage ratio of 1.10, although a higher ratio may be required for developments perceived to present greater risk.

**C. D. INCOME LIMITS:** TYPICALLY ALL UNITS ARE TARGETED TO 60% OF AREA MEDIAN INCOME AND BELOW, BUT MIXED INCOME HOUSING IS PERMISSIBLE IN CASES WHERE AT LEAST 20% OF THE UNITS ARE AFFORDABLE TO HOUSEHOLDS AT 50% OF AREA MEDIAN INCOME OR 40% OF THE UNITS ARE AFFORDABLE TO HOUSEHOLDS AT 60% OF AREA MEDIAN INCOME.

**D. RENT RESTRICTIONS:** RENTS (INCLUSIVE OF AN ESTIMATE OF TENANT-PAID UTILITIES) ON ANY OF THE UNITS THAT ARE TARGETED FOR TAX CREDIT OCCUPANCY AT THE 60% INCOME LEVEL, WILL BE RESTRICTED TO 95% OF 30% OF 60% OF AREA MONTHLY MEDIAN INCOME AS ESTABLISHED BY HUD. UNITS THAT ARE TARGETED FOR TAX CREDIT OCCUPANCY AT LESS THAN 60% INCOME LEVEL, WILL BE RENT RESTRICTED TO 30% OF THAT INCOME LIMIT. THE RESTRICTED RENT CALCULATION WILL BE BASED ON AN OCCUPANCY ASSUMPTION OF ONE AND ONE HALF PERSONS PER BEDROOM. IN SOME SITUATIONS, AS NOTED BELOW, THE USE OF HOME FUNDS WILL REQUIRE FURTHER RENTAL RESTRICTIONS.

RENTAL INCREASES DURING ANY 12-MONTH PERIOD WILL BE LIMITED TO NOT MORE THAN 5% OF THE RENT PAID BY THE RESIDENT HOUSEHOLD AT THE BEGINNING OF THAT ANNUAL PERIOD. EXCEPTIONS TO THIS LIMITATION MAY BE GRANTED BY THE AUTHORITY'S DIRECTOR OF ASSET MANAGEMENT FOR EXTRAORDINARY INCREASES IN PROJECT OPERATING EXPENSES (EXCLUSIVE OF LIMITED DIVIDEND PAYMENTS). RENTS ON VACATED UNITS MAY BE INCREASED TO THE MAXIMUM LEVEL PERMISSIBLE BY THE PROGRAM.

NOTWITHSTANDING THE ABOVE RENTAL RESTRICTIONS, ALL HOME-ASSISTED UNITS IN A RENTAL PROJECT MUST BE OCCUPIED ONLY BY HOUSEHOLDS THAT ARE ELIGIBLE AS LOW-INCOME FAMILIES, DEFINED AS FAMILIES WHOSE ANNUAL INCOME DOES NOT EXCEED 60% OF THE MEDIAN FAMILY INCOME FOR THE AREA AND HAVE RENTS NOT TO EXCEED THE LESSER OF THE EXISTING SECTION 8 FAIR MARKET RENT (FMR) AS ESTABLISHED BY HUD OR THE HIGH HOME RENTS AS ESTABLISHED BY HUD. IN RENTAL PROJECTS WITH FIVE OR MORE HOME-ASSISTED RENTAL UNITS, 20% OF THE HOME-ASSISTED UNITS MUST BE OCCUPIED BY VERY LOW-INCOME FAMILIES AND HAVE RENTS NOT TO EXCEED THE LESSER OF THE FMR, THE LOW HOME RENTS, OR A RENT THAT DOES NOT EXCEED 30% OF THE ANNUAL INCOME OF A FAMILY WHOSE INCOME EQUALS 50% OF THE MEDIAN INCOME FOR THE AREA, AS DETERMINED BY HUD.

**E. B. Market Determination:** The **MARKET FOR THE DEVELOPMENT AND THE** proposed rents must be supported by a professional, independent market analysis (or a rent comparability analysis for acquisition/rehab or preservation proposals) and must be sufficient to meet debt service and normal operating expenses. **MSHDA WILL CONTRACT WITH A MARKET ANALYSIS FIRM TO CONDUCT THIS STUDY, WITH THE COST BORNE BY THE MORTGAGOR.** The impact of the proposed housing on other MSHDA developments in the area **AND THE DIFFERENTIAL BETWEEN MARKET RENT UNITS AND THE PROPOSED HOUSING** will be a factor~~S~~ in accepting proposals for financing.

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- F. D. Developer Fees:** ~~The total development cost may include a developer fee, subject to the limitations of Michigan's Qualified Allocation Plan. The developer fee for Taxable loans is 15% of total development costs (excluding the developer fee, developer overhead, and consultant fees) not to exceed \$1 million.~~ **FOR ACQUISITION/REHABILITATION OR PRESERVATION PROJECTS OF 49 UNITS OR FEWER, THE COMBINED TOTAL OF THE DEVELOPER FEE, DEVELOPER OVERHEAD, AND ANY CONSULTANT FEES WILL BE LIMITED TO \$1,000,000. THIS SHALL BE CALCULATED AS 15% OF THE TOTAL DEVELOPMENT COST, LESS: DEVELOPER FEE, DEVELOPER OVERHEAD, DEVELOPER CONSULTANT FEE, AND PROJECT RESERVES. FOR PROJECTS OF 50 UNITS OR MORE, THE COMBINED TOTAL OF THE DEVELOPER FEE, DEVELOPER OVERHEAD, AND ANY CONSULTANT FEE SHALL BE LIMITED TO \$1,000,000. THIS SHALL BE CALCULATED AS 10% OF TOTAL ACQUISITION COST OF LAND AND BUILDING(S), AND 15% OF THE TOTAL REHABILITATION COST, LESS: DEVELOPER FEE, DEVELOPER OVERHEAD, DEVELOPER CONSULTANT FEE, AND PROJECT RESERVES.**

**FOR NEW CONSTRUCTION PROJECTS, THE COMBINED TOTAL OF THE DEVELOPER FEE, DEVELOPER OVERHEAD, AND DEVELOPER CONSULTANT FEES. FOR NEW CONSTRUCTION PROJECTS OF 50 UNITS OR MORE, THE COMBINED TOTAL OF THE DEVELOPER FEE, DEVELOPER OVERHEAD, AND ANY CONSULTANT FEES SHALL BE LIMITED TO \$1,000,000. THIS SHALL BE CALCULATED AS 15% OF TOTAL DEVELOPMENT COSTS, LESS: DEVELOPER FEE, DEVELOPER OVERHEAD, DEVELOPER CONSULTANT FEES, AND PROJECT RESERVES.**

**IF AN EXISTING PROJECT IS SPLIT INTO TWO OR MORE PROJECTS, THE AGGREGATE DEVELOPER FEE FOR ALL PROJECTS CANNOT EXCEED \$1,000,000.**

- G. E. Operating Assurance Reserve:** ~~A Operating Assurance Reserve (OAR) will be established equal to four months estimated operating expenses, payments required under the mortgage note, deposits to reserves and other anticipated development expenses.~~ **AT THE TIME OF INITIAL DISBURSEMENT OF MORTGAGE LOAN PROCEEDS, THE MORTGAGOR MUST ESTABLISH AN OPERATING ASSURANCE RESERVE (THE "OAR") EQUAL TO FOUR MONTHS' ESTIMATED OPERATING EXPENSES, PAYMENTS REQUIRED UNDER THE MORTGAGE NOTE, DEPOSITS TO RESERVES AND OTHER ANTICIPATED DEVELOPMENT EXPENSES. THE OAR MAY BE FUNDED WITH CASH OR UP TO 50% WITH AN IRREVOCABLE, UNCONDITIONAL LETTER OF CREDIT ACCEPTABLE TO THE AUTHORITY. TO THE EXTENT ANY PORTION OF THE OAR IS USED PRIOR TO THE FINAL CLOSING OF THE MORTGAGE LOAN, THE MORTGAGOR MUST RESTORE THE OAR TO ITS ORIGINAL BALANCE AT FINAL CLOSING.**

**THE OAR AND ANY INTEREST IT ACCRUES WILL BE HELD BY THE AUTHORITY FOR A MINIMUM OF 15 FULL YEARS OF OPERATION OF THE DEVELOPMENT AND MAY BE USED IN ACCORDANCE WITH THE AUTHORITY'S WRITTEN POLICY ON THE USE OF THE OPERATING ASSURANCE RESERVE, AS AMENDED FROM TIME TO TIME.**

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IN THE 10<sup>TH</sup> YEAR OF OPERATION, THE OAR WILL BE USED TO FULLY FUND THE REPLACEMENT RESERVE NEEDS IDENTIFIED BY AN INDEPENDENT COMPREHENSIVE NEEDS ANALYSIS AND TO FULLY FUND ANY OTHER ESCROW ACCOUNTS. IF THE AMOUNT REQUIRED TO FUND ESCROWS IS REPRESENTED BY A LETTER OF CREDIT, THE LETTER OF CREDIT WILL BE DRAWN UPON. THE MORTGAGOR MAY REQUEST APPROVAL OF UP TO A 50% REDUCTION/RELEASE IN THE REMAINING OAR. THE DIRECTOR OF ASSET MANAGEMENT MAY APPROVE A RELEASE AND/OR REDUCTION, BASED ON A REVIEW OF THE DEVELOPMENT'S OPERATIONS. ALL EXCESS AMOUNTS RELEASED FROM THE OAR (IN CONNECTION WITH THIS OR ANY FUTURE RELEASE) WILL BE DEPOSITED INTO THE DEVELOPMENT'S OPERATING ACCOUNT.

FOLLOWING THE 15TH FULL YEAR OF OPERATION, OAR FUNDS THAT ARE NOT NEEDED FOR FUNDING OF THE REPLACEMENT RESERVE, OR OTHER ESCROWS WILL BE AVAILABLE FOR RELEASE TO THE DEVELOPMENT'S OPERATING ACCOUNT.

- H. **F. Replacement Reserve:** The first year deposit to this reserve is a minimum of \$250 per unit for all senior new construction developments, expressed as a percentage of rental income and increasing over time as rental income increases. The minimum first year deposit to the replacement reserve for family new construction or rehabilitation will be equal to \$300 per unit. Development amenities, unit type, or anticipated replacement of capital items in the case of rehabilitation may dictate a higher required deposit.

FOR ACQUISITION/REHAB PROPOSALS, THE ANNUAL DEPOSIT TO THE REPLACEMENT RESERVE ON THE FIRST FULL YEAR OF THE NEW LOAN WILL NO BE LESS THAN \$300 PER UNIT. FURTHERMORE, AT THE MORTGAGE LOAN CLOSING THE SPONSOR MUST DEPOSIT THE GREATER OF \$700 PER UNIT, OR AN AMOUNT DETERMINED TO SATISFY THE REQUIREMENTS OF THE AUTHORITY APPROVED CNA CAPITAL NEEDS ASSESSMENT OVER A 15 20 YEAR PERIOD.

- I. **OPERATING DEFICIT RESERVE:** AN OPERATING DEFICIT RESERVE (ODR) MAY BE REQUIRED BASED ON A CASH FLOW ANALYSIS OVER A 20-YEAR PERIOD. WHEN REQUIRED, THE MORTGAGOR MUST ENTER INTO AN AGREEMENT AND ESTABLISH AN ODR WITH THE AUTHORITY WITH AN INITIAL DEPOSIT AT CLOSING. THE ODR SHALL BE FUNDED IN CASH, HELD AND CONTROLLED BY THE AUTHORITY AND WILL BE INVESTED AND REINVESTED BY THE AUTHORITY'S OFFICE OF FINANCE. INTEREST EARNED ON THIS RESERVE, IF ANY, SHALL BECOME PART OF THIS RESERVE AND SHALL BE TREATED AND DISBURSED IN THE SAME WAY.

THE AMOUNT DISBURSED ANNUALLY FROM THE ODR WILL BE THE ANNUAL PROJECTED BUDGET DEFICIT AS SHOWN ON CASH FLOW ANALYSIS ESTABLISHING THE ODR. EACH MONTH THE AUTHORITY WILL WITHDRAW 1/12TH OF THE PROJECTED ANNUAL DEFICIT FOR THAT SPECIFIC YEAR FROM THE ODR, AND WILL APPLY IT AGAINST THE MORTGAGE PAYMENT DUE THAT MONTH. THE ANNUAL DISBURSEMENT WILL REMAIN UNCHANGED UNTIL THE MORTGAGOR REQUESTS AN INCREASE, WHICH CAN BE MADE UP TO THE AMOUNT ON ATTACHMENT A FOR THAT YEAR. THIS WILL CONTINUE EACH



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YEAR UNTIL THE ODR HAS BEEN DEPLETED OR THE AUTHORITY'S MORTGAGE LOAN(S) ARE PAID IN FULL.

IN THE EVENT THAT THE DEVELOPMENT EXPERIENCES AN OPERATING DEFICIT THAT IS GREATER THAN THAT PROJECTED, THE MORTGAGOR MAY REQUEST THAT THE AUTHORITY INCREASE THE AMOUNT DRAWN FROM THE ODR. THE DIRECTOR OF ASSET MANAGEMENT MUST APPROVE THE REQUEST. HOWEVER, THE MORTGAGOR SHALL NOT BE ENTITLED TO RECEIVE A LIMITED DIVIDEND PAYMENT FOR ANY YEAR IN WHICH THE AMOUNT DRAWN FROM THE ODR IS GREATER THAN THE AMOUNT IDENTIFIED IN ATTACHMENT A FOR THAT YEAR, UNTIL THE BALANCE OF THE ODR IS RESTORED TO THE APPROPRIATE LEVEL.

AT THE EARLIER OF THE TIME WHEN THE ODR HAS BEEN DEPLETED OR DURING THE 20TH YEAR AFTER MORTGAGE LOAN CLOSING, THE AUTHORITY WILL DETERMINE THE ANNUAL PROJECTED OPERATING DEFICITS AND THE TOTAL AMOUNT SUFFICIENT TO FUND PROJECTED OPERATING DEFICITS THROUGH THE REMAINING TERM OF THE AUTHORITY'S MORTGAGE LOAN(S). THE MORTGAGOR MUST DEPOSIT THIS AMOUNT IN CASH INTO THE ODR, TO BE HELD BY THE AUTHORITY AND DISBURSED AS NOTED ABOVE. FAILURE TO REPLENISH THE ODR, WHEN REQUIRED BY THE AUTHORITY, SHALL CONSTITUTE A DEFAULT ON THE MORTGAGE LOAN. IN THE EVENT THAT THE AUTHORITY'S MORTGAGE LOAN IS ACCELERATED AFTER A DEFAULT IN THE TERMS OF THE MORTGAGE, NOTES OR REGULATORY AGREEMENT, THE AUTHORITY, IN ITS SOLE DISCRETION, MAY, BUT IS NOT REQUIRED TO, APPLY ANY FUNDS ON DEPOSIT IN THE ODR, TO THE AMOUNT DUE ON THE MORTGAGE LOANS AS ACCELERATED.

AT SUCH TIME AS THE AUTHORITY'S MORTGAGE LOAN(S) AND ALL OTHER FINANCIAL OBLIGATIONS TO THE AUTHORITY ARE PAID IN FULL, THE REMAINING BALANCE OF THE ODR, INCLUDING ALL INTEREST THAT HAS ACCUMULATED, WILL BE DISBURSED TO THE MORTGAGOR.

- J. **G. Vacancy Loss:** Vacancy loss will typically be budgeted at 5% of the gross rental potential. In certain markets **OR FOR SMALL SCALE DEVELOPMENTS**, a higher vacancy loss may be required and preservation proposals with project-based subsidies may be underwritten at 3%.
- K. **TAX ABATEMENT:** IF UNDERWRITING REQUIRES TAX ABATEMENT, THE AUTHORITY MUST BE SATISFIED THAT THE TAX ABATEMENT SHALL BE IN EFFECT FOR THE 35-YEAR MORTGAGE TERM. ESCALATING PILOTS WILL BE UNDERWRITTEN AT THE MAXIMUM RATE, RATHER THAN THE INITIAL RATE.
- L. **H. Limited Dividend Calculations:** MSHDA's statute limits the return an owner can take on the equity investment in the project. Equity is defined as total development cost, less MSHDA mortgage and less any grants and "soft" or non-amortizing secondary financing. For taxable loans, a return on the equity contribution of the owner of 25 percent per year is permitted, **UNLESS A HOME LOAN OR PRESERVATION LOAN OR INTEREST RATE DEFERRAL OR OTHER MSHDA CONCESSION IS OUTSTANDING. IN THESE CIRCUMSTANCES, THE LIMITED DISTRIBUTION WILL BE LIMITED TO 12% UNTIL THE HOME LOAN OR PRESERVATION LOAN OR**

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**INTEREST RATE DEFERRAL IS REPAYED. THE ELIGIBLE LIMITED DIVIDEND IS CUMULATIVE FOR A NEW CONSTRUCTION TRANSACTION, BUT IS NON-CUMULATIVE FOR PRESERVATION TRANSACTIONS.**

**M. CONSTRUCTION CONTRACT ALLOWANCES:** LINE ITEM ALLOWANCES WITHIN THE CONSTRUCTION CONTRACT IS 6% FOR BUILDER PROFIT, 2% FOR BUILDER OVERHEAD , AND 6% FOR GENERAL REQUIREMENTS OF THE TOTAL CONSTRUCTION CONTRACT AMOUNT.

**N. Debt Coverage:** MSHDA requires a debt coverage ratio of 1.10, although a higher ratio may be required for developments perceived to present a greater risk.

**O. I. Rent-Up Allowance:** For new construction or vacant acquisition and rehabilitation proposals, a Rent-up Allowance is required. Rent-up period interest is included in the mortgage beyond the construction period. The Rent-Up Allowance typically supports ~~three~~ UP to six months of interest. In situations where a rent-up period in excess of three **SIX** months is projected to achieve ~~60~~ **80% OF RENT POTENTIAL** occupancy, MSHDA may, at its sole discretion, extend the rent-up period requiring that additional interest, along with additional insurance, tax, and marketing expenses be budgeted and supported by the mortgage until development operations can reasonably be expected to support both operations and these expenses.

The mortgagor may elect to provide cash, an unconditional, irrevocable letter of credit, or other security acceptable to the Director of Finance for this additional expense. The mortgagor may, upon achieving ~~60~~ **80% OF RENT POTENTIAL** occupancy as described above, and providing evidence of 12 month leases at rents at least **EQUAL** to the rents stipulated in the commitment proforma, without rent concessions, request in writing that the letter of credit or other security be released.

**FOR OCCUPIED ACQUISITION AND REHABILITATION PROPOSALS, ONE MONTH'S GROSS RENT POTENTIAL IS REQUIRED TO BE DEPOSITED TO THE OPERATING ACCOUNT OF THE DEVELOPMENT AT CLOSING, AND OTHER RE-MARKETING OR TRANSITIONAL OPERATING RESERVES MAY BE REQUIRED.**

**P. J. MSHDA Design Standards/Site Selection Criteria:** MSHDA has multifamily design standards that often exceed the requirements of local building codes and site selection criteria against which all proposed development sites are reviewed. The design standards and site criteria are available on MSHDA's web site. The sponsor's architect will be required to certify compliance of the plans and specifications with the design standards.

**Q. K. Construction Contingencies:** Construction contingencies will be required for all proposals involving rehabilitation, determined on a case-by-case basis. Rehabilitation contingencies of 10 percent of the construction contract amount should be anticipated. Generally, these funds will be a soft cost line item and not part of the construction contract. For new construction, a construction contingency will not be required unless unusual site conditions are anticipated (such as buried debris or environmental remediation). Contingency funds are allowed, if required by the equity partner.

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**R. NO RELOCATION: INVOLUNTARY PERMANENT RELOCATION OF EXISTING RESIDENTS IN REHABILITATION PROPOSALS IS NOT PERMITTED.**

**S. ~~L. Syndication and other Equity Pay-In:~~ Syndication and other Equity Pay-In:** A ~~consultation between the mortgagor, MSHDA, and the syndicator is recommended to determine an~~ **MSHDA'S ASSIGNED HDO WILL FACILITATE A CONSULTATION PROCESS WITH THE SPONSOR, APPROPRIATE MSHDA STAFF, AND THE SPONSOR'S SYNDICATOR IN ORDER TO ARRIVE AT A MUTUALLY** acceptable and detailed schedule setting forth **BOTH** the timing of the anticipated payment of all costs necessary to complete the development, and ~~achieve sustaining occupancy. This schedule must further compare the "uses" of funds over time with the proposed availability of "sources" of funds. It is expected that 75% of all general project costs be paid in by 50% construction completion and 100% by 75% completion.~~

~~Conditions to any non-MSHDA source of funds will be reviewed and may be rejected if those conditions jeopardize the availability of the funding when it is needed. With the exception of payments of developer fees directly from the equity partner to the mortgagor, all non-MSHDA sources of funding must be deposited with and disbursed through MSHDA.~~

~~At its discretion, MSHDA may provide construction financing to bridge equity pay-ins.~~ **ALONG WITH THE SOURCES OF SUCH PAYMENTS. THIS FACILITATION SHALL TAKE PLACE SHORTLY AFTER THE MSHDA BOARD APPROVES THE FEASIBILITY/COMMITMENT REPORT AND WILL BE SPECIAL CONDITION OF THAT REPORT. A MORTGAGE LOAN CLOSING WILL NOT BE SCHEDULED UNTIL THERE IS AN AGREEMENT AMONG THE PARTIES AS TO THE SCHEDULE OF FUNDING.**

**IT IS EXPECTED THAT MSHDA SHALL RECEIVE SUFFICIENT EQUITY AND OTHER CONTRIBUTIONS TO ASSURE THAT WHEN COMBINED WITH MORTGAGE LOAN PROCEEDS, THERE WILL BE SUFFICIENT FUNDS TO ASSURE PAYMENT OF DEVELOPMENT COSTS DURING CONSTRUCTION. MSHDA WILL WORK WITH BOTH THE SPONSOR AND THE SYNDICATOR ON TIMING ISSUES AND WORK TO IDENTIFY MUTUALLY AGREEABLE SOLUTIONS TO FILL FUNDING GAPS AS APPROPRIATE TO THE PARTICULAR SITUATION. HOWEVER, IN NO EVENT WILL MSHDA AGREE TO A CONDITION(S) THAT IT DETERMINES JEOPARDIZE THE AVAILABILITY OF FUNDING WHEN IT IS NEEDED. WITH THE EXCEPTION OF PAYMENTS OF DEVELOPER FEES DIRECTLY FROM THE EQUITY PARTNER TO THE MORTGAGOR, ALL NON-MSHDA SOURCES OF FUNDS MUST BE DEPOSITED WITH AND DISBURSED THROUGH MSHDA.**

**IV. Other Information:**

**A. Fees:** A NON-REFUNDABLE application fee of \$1,000 **MUST BE SUBMITTED WITH ANY PROPOSAL FOR MORTGAGE LOAN FINANCING. ADDITIONALLY, A NON-REFUNDABLE FILING FEE OF .5% OF THE PROPOSED MORTGAGE AMOUNT WILL BE CHARGED FOR PROJECTS PRESENTED TO THE AUTHORITY BOARD FOR A COMBINED MORTGAGE LOAN FEASIBILITY/COMMITMENT AUTHORIZATION. THE NON-REFUNDABLE FILING FEE IS CREDITED TOWARD A 2% COMMITMENT FEE THAT IS PAID AT THE INITIAL LOAN CLOSING.** ~~A 2% Commitment fee and tax credit and compliance fees apply.~~

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**B. LABOR STANDARDS:** EVERY CONTRACT FOR THE CONSTRUCTION OF HOUSING UNDER THIS PROGRAM THAT INCLUDES 12 OR MORE HOME-DESIGNATED UNITS MUST CONTAIN A PROVISION REQUIRING THE PAYMENT OF NOT LESS THAN THE WAGES PREVAILING IN THE LOCALITY, AS PREDETERMINED BY THE SECRETARY OF LABOR PURSUANT TO THE DAVIS-BACON ACT, TO ALL LABORERS AND MECHANICS EMPLOYED IN THE DEVELOPMENT OF ANY PART OF THE HOUSING.

**C. ~~B.~~ Equal Opportunity:** MSHDA requires a plan from:

- The **PRIME** Contractor **IS** to provide ~~equal opportunities~~ **EQUAL OPPORTUNITY PLAN** for ~~minority and female-owned subcontractors and material suppliers and to provide jobs for minority and female members of the~~ **WORKFORCE TRADE UTILIZATIONS AND FOR BUSINESS CONTRACTING ENTERPRISES TO SUBCONTRACTORS AND MATERIAL SUPPLIERS;** and
- The management agent to aggressively and affirmatively market the housing to minority groups.

**D. ~~G.~~ Cost Certification:** The contractor and the mortgagor must submit timely certifications of the actual costs incurred in developing and building the project **FOR BOTH THE TAX CREDITS AND THE DEBT FINANCING, EXCEPT IN THE CASE OF PRESERVATION TRANSACTIONS, FOR WHICH ONLY THE LIHTC COST CERTIFICATION WILL BE REQUIRED.**

**E. ~~D.~~ Loan Management:** MSHDA's Office of Asset Management monitors a development's operations for compliance with controlling **LOAN** documents, and financial and physical condition, through a variety of reporting systems. These systems include electronic submission of monthly income and expense statements, review and approval of annual budgets and audits, approval of the use of reserves, and other required reports. A development's compliance with resident income eligibility, rental restrictions, and physical inspections is monitored by MSHDA's Compliance Division.

**F. ~~E.~~ No Relocation:** Involuntary permanent relocation of existing residents in ~~rehabilitation proposals~~ is not permitted.

**G. ~~F.~~ Application processing:** A ~~30-day~~ **SIX-MONTH** processing time from application to Acceptance **CLOSING** is anticipated. ~~Determination of Mortgage Loan Feasibility, a Board action, will typically require an additional 60 days.~~ **PROPOSALS NOT SUBMITTING FEASIBILITY MATERIALS WITHIN 60 DAYS OF ACCEPTANCE WILL BE REMOVED FROM THE ACTIVE PIPELINE. EXPEDITED PROCESSING OPTIONS IS AVAILABLE UPON REQUEST.**

**H. ~~G.~~ Typical Processing Steps:**

- Preliminary conference (optional)
- Within 30 days of receipt of proposal, staff makes initial determination of site acceptability and development team capability and **IF ACCEPTABLE** issues letter of acceptance for processing (lock of rate and **PRESERVATION FUND AND HOME Loan** funds for **9 6** months)

## **Taxable Lending Parameters** (Including Preservation)

- Mortgagor submits ~~market study, environmental Phase I, preliminary soil borings, and feasibility level drawings~~ **FEASIBILITY MATERIALS** within 60 days of Acceptance or application is considered inactive.
- Within 60 days of receipt of feasibility materials (~~market study, environmental Phase I, preliminary soil borings, feasibility level drawings, and operating numbers~~), staff issues Mortgage feasibility letter or Board action may be combined with mortgage loan commitment **STAFF WILL COMPLETE FEASIBILITY LEVEL ANALYSIS AND PRESENT TO LOAN COMMITTEE FOR ACTION.**
- **IF ACCEPTABLE, NOTICE TO PROCEED IS ISSUED**
- **WITHIN 60 DAYS OF RECEIPT OF COMMITMENT MATERIALS, STAFF WILL COMPLETE COMMITMENT LEVEL ANALYSIS AND PRESENT TO LOAN COMMITTEE FOR ACTION.**
- **IF ACCEPTABLE, A RECOMMENDATION IS MADE FOR BOARD APPROVAL FOR AUTHORIZATION OF MORTGAGE LOAN FEASIBILITY AND COMMITMENT.**
- Award of 9% LIHTC
- ~~Mortgage loan commitment/~~Loan Closing

- I. **Inactive Applications:** A HOUSING DEVELOPMENT OFFICER, IN CONSULTATION WITH THE MSHDA DEVELOPMENT MANAGER AND DIRECTOR OF MULTIFAMILY DEVELOPMENT, WILL DETERMINE AN APPLICATION TO BE INACTIVE AND PLACE IT IN THE "INACTIVE" PIPELINE IF THE SPONSOR IS UNABLE TO SUBMIT MATERIALS REQUIRED FOR CONTINUED PROCESSING IN A TIMELY MANNER (GENERALLY, 30 DAYS FROM THE REQUEST FOR SUCH MATERIALS). ADDITIONALLY, SPONSORS MAY REQUEST THAT AN APPLICATION BE MADE "INACTIVE" FOR ANY REASON.

WHEN AN APPLICATION IS PLACED IN "INACTIVE" STATUS, IT LOSES ITS INTEREST RATE LOCK. THE INTEREST RATE FOR AN "INACTIVE" APPLICATION WILL BE DETERMINED UPON RE-ACTIVATION. AN "INACTIVE" STATUS DOES, HOWEVER, ACT AS A PLACEHOLDER FOR THE MARKET. AS LONG AS AN APPLICATION IS IN THE "INACTIVE" PIPELINE, NO NEW APPLICATION FOR THE SAME DEVELOPMENT TYPE WILL BE CONSIDERED FOR THIS MARKET, WITHOUT THE SPONSOR OF THE INACTIVE APPLICATION FIRST HAVING A CHANCE TO RESOLVE THE INACTIVE STATUS.

HOME OR PRESERVATION FUNDS WILL NOT BE HELD FOR APPLICATIONS IN THE INACTIVE PIPELINE.

UPON RECEIPT OF ANOTHER, NEW APPLICATION IN THE SAME MARKET AREA, MSHDA WILL IMMEDIATELY NOTIFY BOTH THE NEW APPLICANT AND THE SPONSORS OF ANY INACTIVE APPLICATION(S) IN THAT MARKET AREA. SPONSORS WITH AN APPLICATION IN THE "INACTIVE" PIPELINE MUST:

- NOTIFY MSHDA IN WRITING THAT THEY WISH TO ACTIVATE THE APPLICATION WITHIN FOURTEEN DAYS OF THE DATE OF THE NOTICE, AND
- SUBMIT ALL OUTSTANDING DOCUMENTATION REQUIRED FOR PROCESSING WITHIN THIRTY (30) DAYS OF THE DATE OF NOTICE.

**Taxable Lending Parameters**  
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IF THE SPONSOR SATISFIES BOTH OF THESE CONDITIONS, THE APPLICATION WILL BE REACTIVATED. IF THE SPONSOR FAILS TO SATISFY EITHER OF THE CONDITIONS ABOVE, THE "INACTIVE" APPLICATION BECOMES VOID AND THE NEW APPLICATION WILL BE REVIEWED. THE SPONSOR OF THE NEW APPLICATION WILL BE NOTIFIED OF THE HOLD ON THEIR APPLICATION, PENDING DISPOSITION OF THE INACTIVE APPLICATION AND MAY CHOOSE TO BE PLACED IN THE INACTIVE PIPELINE UNTIL THE COMPETING APPLICATION HAS RECEIVED MORTGAGE LOAN COMMITMENT.

FOR TAXABLE BOND FINANCING, THE MAXIMUM AMOUNT OF TIME ANY APPLICATION WILL BE CONSIDERED "INACTIVE" IS 12 MONTHS OR TWO 9% LIHTC FUNDING ROUNDS. AFTER THAT THE APPLICATION WILL BE REMOVED AND CONSIDERED VOID.

TO ACTIVATE AN APPLICATION PREVIOUSLY CONSIDERED "INACTIVE" THE SPONSOR MUST SUBMIT WRITTEN INTENT TO MSHDA ALONG WITH ALL REQUIRED DOCUMENTATION WITHIN 30 DAYS OF THE DATE OF ITS WRITTEN NOTIFICATION TO BE COME REACTIVATED, OTHERWISE THE APPLICATION IS VOID. NO ADDITIONAL FEES ARE REQUIRED TO ACTIVATE AN APPLICATION; HOWEVER, MSHDA MAY, AT ITS SOLE DISCRETION, DECLINE TO ACTIVATE ANY APPLICATION AND/OR MAY REMOVE ANY APPLICATION FROM ITS PIPELINE.

- J. **H. Other Unique Circumstances:** Developers are encouraged to discuss unique development or preservation opportunities not within these parameters with MSHDA Multifamily Development staff to determine the potential for waiver of certain of these parameters.

**Section 8 Preservation Parameters  
(Tax-Exempt)**



**Section 8 Preservation Parameters  
(Tax-Exempt)**

**Updated ~~December 13, 2006~~ SEPTEMBER 26, 2007**

MSHDA is offering tax-exempt preservation lending to extend the affordability, viability, and livability of existing Section 8 developments for a minimum of 35 years.

Loans will be provided based on the extent to which the following objectives are met:

1. The rehabilitation addresses physical needs of the property, including those directly related to the enhancement of resident livability and functionality.
2. The loan will be a long-term earning asset.
3. The transaction uses the least amount of Preservation Fund loan necessary or contributes resources to the Preservation Fund.
4. The longest possible term of affordability is achieved.

**I. Eligibility and Resource Availability:**

- A. Eligible Developments:** Any project-based Section 8 development in Michigan is eligible to apply for a tax-exempt loan from MSHDA.
- B. Eligible Borrowers:** A SPONSOR/DEVELOPER MAY BE A NONPROFIT, AN INDIVIDUAL, A GROUP OF INDIVIDUALS, A CORPORATE ENTITY, OR SOME COMBINATION. PRIOR TO MORTGAGE LOAN COMMITMENT, A LEGAL ENTITY MUST BE FORMED THAT IS AN "ELIGIBLE BORROWER" UNDER THE AUTHORITY'S ACT.
- C. ~~Bond Cap:~~** ~~\$150 million of tax-exempt bond cap will be allocated, with no more than \$50 million available for non-MSHDA developments.~~
- C. Minimum Rehab:** At least ~~\$5,000~~ **\$10,000** in rehab/unit and 15% of acquisition cost required, with emphasis on improvements benefiting residents (Preservation Capital Needs Assessment required).
- D. Preservation Fund Loan:** In the event the Authority determines the transaction will not adequately address unmet physical needs, a Preservation Fund (PF) loan may be available at 3% simple interest.

**IF LESS THAN 40% OF THE ALLOWABLE DEVELOPER FEE IS DEFERRED, MONTHLY PAYMENTS BASED ON A 50-YEAR AMORTIZATION WILL BE DUE UNTIL THE END OF THE FIRST MORTGAGE. AT THE END OF THE FIRST MORTGAGE TERM, THE OUTSTANDING BALANCE OF THE PF LOAN, INCLUDING ACCRUED INTEREST, WILL BECOME THE NEW FIRST MORTGAGE AND BEGIN AMORTIZATION WITH MONTHLY MORTGAGE PAYMENTS EQUAL TO THE PAYMENTS UNDER THE ORIGINAL FIRST MORTGAGE, WITH THE BALANCE OF PRINCIPAL AND ALL INTEREST DUE AT THE EARLIER OF SALE OF THE DEVELOPMENT, REFINANCING OF THE MORTGAGE LOAN OR 50 YEARS AFTER CLOSING.**

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**IF 40% OR MORE OF THE ALLOWABLE DEVELOPER FEE IS DEFERRED, THE DEVELOPER HAS TWO OPTIONS:**

- 1. INTEREST WILL ACCRUE, BUT PF LOAN AMORTIZATION MAY BE DEFERRED UNTIL THE DEFERRED DEVELOPER FEE HAS BEEN PAID, BUT NO LATER THAN THE END OF THE 12<sup>TH</sup> YEAR. BEGINNING AT THE EARLIER OF THE YEAR IN WHICH THE DEVELOPER FEE HAS BEEN PAID IN FULL OR IN THE 13<sup>TH</sup> YEAR FROM THE DATE OF INITIAL DISBURSEMENT OF THE MORTGAGE LOAN, ANNUAL PAYMENTS WILL BE PAYABLE FROM TWENTY-FIVE PERCENT OF ANY SURPLUS CASH AVAILABLE FOR DISTRIBUTION TO THE OWNER, APPLIED FIRST TO ACCRUED INTEREST, THEN TO CURRENT INTEREST AND PRINCIPAL, WITH THE BALANCE OF PRINCIPAL AND ALL INTEREST DUE AT THE EARLIER OF SALE OF THE DEVELOPMENT, REFINANCING OF THE MORTGAGE LOAN OR 50 YEARS AFTER CLOSING.**
- 2. IF THE OWNER AGREES TO CONTRIBUTE AT LEAST 3% OF THE ALLOWABLE DEVELOPER FEE TO THE RESIDENT SERVICES FUND, MSHDA WILL ALLOW A PF LOAN SUFFICIENT TO REDUCE THE DEFERRED DEVELOPER FEE TO 30%. INTEREST WILL ACCRUE, BUT PF LOAN AMORTIZATION MAY BE DEFERRED UNTIL THE DEFERRED DEVELOPER FEE HAS BEEN PAID, BUT NO LATER THAN THE END OF THE 12<sup>TH</sup> YEAR. BEGINNING AT THE EARLIER OF THE YEAR IN WHICH THE DEVELOPER FEE HAS BEEN PAID IN FULL OR IN THE 13<sup>TH</sup> YEAR FROM THE DATE OF INITIAL DISBURSEMENT OF THE MORTGAGE LOAN, ANNUAL PAYMENTS WILL BE PAYABLE FROM TWENTY-FIVE PERCENT OF ANY SURPLUS CASH AVAILABLE FOR DISTRIBUTION TO THE OWNER, APPLIED FIRST TO ACCRUED INTEREST, THEN TO CURRENT INTEREST AND PRINCIPAL, WITH THE BALANCE OF PRINCIPAL AND ALL INTEREST DUE AT THE EARLIER OF SALE OF THE DEVELOPMENT, REFINANCING OF THE MORTGAGE LOAN OR 50 YEARS AFTER CLOSING.**

**AT THE END OF THE FIRST MORTGAGE TERM, THE OUTSTANDING BALANCE OF THE PF LOAN, INCLUDING ACCRUED INTEREST, WILL BECOME THE NEW FIRST MORTGAGE AND BEGIN AMORTIZATION WITH MONTHLY MORTGAGE PAYMENTS EQUAL TO THE PAYMENTS UNDER THE ORIGINAL FIRST MORTGAGE WITH THE BALANCE OF PRINCIPAL AND ALL INTEREST DUE AT THE EARLIER OF SALE OF THE DEVELOPMENT, REFINANCING OF THE MORTGAGE LOAN OR 50 YEARS AFTER CLOSING. AFFORDABILITY RESTRICTIONS IMPOSED AT THE CLOSING OF THE MORTGAGE LOAN APPLY FOR 50 YEARS.**

- E. Resident Services Fund:** This fund will be administered by a 501c3 non-profit created for this purpose or some other entity, as approved by MSHDA, for the purpose of funding supportive services such as youth development activities, job training and placement, service coordinators in senior housing, child care services, or other necessary and appropriate resident services. Any affordable rental housing development in Michigan is eligible to apply for funding from the RSF.



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- F. **Michigan Green Communities Grant:** A grant of \$1,000 per affordable unit, up to a maximum of \$50,000 **PER PROJECT**, is available from MSHDA for rehabilitated developments meeting the Michigan Green Communities criteria. The Enterprise Foundation will match funds and a \$3,000 grant is provided for administrative reporting.
- G. **Tax-Exempt Eligibility:** All proposals must include rehabilitation in an amount that satisfies the 15 percent test of the Internal Revenue Code for the use of private activity bond cap **EXPENDITURES WITH RESPECT TO EACH BUILDING, WHICH MUST EQUAL OR EXCEED 15 PERCENT OF THE PORTION OF THE COST OF ACQUIRING SUCH BUILDING (AND EQUIPMENT)**, and the proposed tax exempt financing must equal at least 51% of the total development cost. **PARTICIPATION IN THE HOUSING TAX CREDIT PROGRAM IS REQUIRED AND UNDERWRITING STANDARDS OF THE QUALIFIED ALLOCATION PLAN WILL APPLY.**
- H. **OTHER: ADDITIONAL PROGRAM REQUIREMENTS AS DEFINED IN THE MICHANGAN QUALIFIED ALLOCATION PLAN.**

### II. Interest Rate and Term:

- A. **Rate:** The rate will be based on a municipal index and will be changed weekly and **6.45% SUBJECT TO INCREASE BASED ON MSHDA'S COST OF BORROWING. CHANGES IN RATE WILL BE** posted on MSHDA's website. Typically MSHDA will bear the cost of any risk-sharing insurance, should it be required, within this rate.
- B. **Timing:** Rate determined at close of business on date of receipt of complete application. Locked in for maximum 6-month processing time.
- C. **Special Rate CONCESSIONS AND INDUCEMENTS:** Up to A  $\frac{1}{2}\%$  of the interest rate **REDUCTION** may be deferred **AVAILABLE** if at least 15% of the units will be **ARE** affordable to a targeted special-needs population with services **TO BE** provided in accordance with a MSHDA-approved Addendum III supportive services plan. This deferral **REDUCTION** will be forgiven if an acceptable level of services continues for the term of affordability and the **INTEREST RATE** will be eliminated **RAISED** in the event services are not provided. **INTEREST RATE DEFERRAL MAY BE AVAILABLE IN CERTAIN MSHDA-DESIGNATED COMMUNITIES, SUCH AS CITIES OF PROMISE AND VERY LOW INCOME COUNTIES. IN PROJECTS WHERE AN INTEREST RATE DEFERRAL IS GIVEN, THE DEFERRED INTEREST SHALL BE REPAYED ANNUALLY, USING THE REPAYMENT TERMS NOTED ABOVE FOR THE PRESERVATION FUND LOAN, HOWEVER ALL DEFERRED INTEREST ON THE FIRST MORTGAGE WILL BE DUE AND PAYABLE ON THE MATURITY DATE OF THE FIRST MORTGAGE. NO ANNUAL DEBT SERVICE WILL BE DUE ON THE PRESERVATION FUND LOAN WHILE THE FIRST MORTGAGE IS OUTSTANDING, BUT AT THE END OF THE FIRST MORTGAGE TERM, THE OUTSTANDING BALANCE OF THE PRESERVATION FUND LOAN, INCLUDING ACCRUED INTEREST, WILL BECOME THE NEW FIRST MORTGAGE AND BEGIN AMORTIZATION WITH MONTHLY MORTGAGE PAYMENTS EQUAL TO THE PAYMENTS UNDER THE ORIGINAL FIRST MORTGAGE. WITH THE BALANCE OF PRINCIPAL AND ALL INTEREST DUE AT THE EARLIER OF SALE OF THE DEVELOPMENT, REFINANCING OF THE MORTGAGE LOAN OR 50 YEARS AFTER CLOSING.**

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- D. **DEBT COVERAGE:** MSHDA REQUIRES A MINIMUM DEBT COVERAGE RATIO OF 1.10, BASED ON THE ASSESSMENT OF RISK ASSOCIATED WITH THE DEVELOPMENT.
- E. **LOAN INSURANCE:** MSHDA reserves the right to require the submission of documents necessary to obtain HUD risk-sharing (50/50) **OR FULL FHA** insurance. Typically MSHDA will bear the cost of any risk-sharing insurance, should it be required. If the mortgagor requests risk-sharing insurance, the premium cost will be borne by the mortgagor.
- F. **Term/Prepayment:** Neither the Part "A" or "B" loan is eligible for prepayment. After the 15<sup>th</sup> year, MSHDA may, **AT ITS SOLE DISCRETION**, allow prepayment of the Part "A" mortgage and Part "B" if the Housing Assistance Payment (HAP) has expired, after consultation with the owner regarding the development's physical and financial needs. ~~Factors to be considered include the ability to access additional funds to address capital needs and changing partnership interests.~~ In the event MSHDA permits a prepayment, the mortgagor shall pay a 1% prepayment penalty plus any bond call premium, prepayment or swap penalty **AND LOSS OF SPREAD BETWEEN THE LOAN AND BOND RATE USED TO FINANCE THE LOAN FROM THE DATE OF THE PREPAYMENT THROUGH THE END OF THE 20<sup>TH</sup> YEAR OF AMORTIZATION.**

A MORTGAGOR INTERESTED IN PREPAYING A MORTGAGE WILL BE RESPONSIBLE FOR PAYING ANY COSTS ASSOCIATED WITH TERMINATION OF AN EQUAL AMOUNT OF AN INTEREST RATE SWAP AGREEMENT (SWAP). ONCE THE MORTGAGOR HAS BEEN APPROVED FOR THE EARLY PREPAYMENT OF THE UNDERLYING LOAN, THEY WILL SIGN AN AGREEMENT WITH MSHDA STATING THEY ARE RESPONSIBLE FOR THE COST OF TERMINATING THE SWAP. THE MORTGAGOR CAN THEN CHOOSE THE TIMING OF THE TERMINATION AND PARTICIPATE IN THE TRANSACTION WITH THE SWAP COUNTERPARTY (LEHMAN, MERRILL LYNCH OR GOLDMAN SACHS). THE SWAP COUNTERPARTY WILL QUOTE THE COST OF TERMINATING THE SWAP AND THE MORTGAGOR WILL HAVE THE ABILITY TO EXECUTE THE TRANSACTION OR CANCEL AT THEIR SOLE DISCRETION. IF THE MORTGAGOR CHOOSES NOT TO TERMINATE THE SWAP, THEY WILL FORFEIT THE RIGHT TO PREPAY THE MORTGAGE.

- G. **Affordability Restrictions:** ~~Affordability restrictions must extend~~ **IMPOSED AT THE CLOSING OF THE MORTGAGE LOAN MUST REMAIN IN PLACE for 90 YEARS.** ~~the originally scheduled term of the MSHDA mortgage(s) if a preservation fund loan is provided~~

### III. Underwriting Standards:

- A. **Appraisal/Rent Comps:** **AN APPRAISAL IDENTIFYING THE "As is" encumbered AND UNENCUMBERED values** appraisal and acceptable rent comparability analysis **IS** required. Information regarding current tenancy of the development, including gross annual income, rent currently paid, age, length of residency, and other demographics will also be required, as will vacancy rates and turnover data for the past 3 years. ~~MSHDA reserves the right to request additional information, including a market study which meets Authority guidelines, if there are concerns with the development's ability to be successfully marketed.~~

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- B. MARKET DETERMINATION:** THE MARKET FOR THE DEVELOPMENT AND THE PROPOSED RENTS MUST BE SUPPORTED BY A PROFESSIONAL, INDEPENDENT MARKET ANALYSIS AS DETERMINED BY MSHDA, AND MUST BE SUFFICIENT TO MEET DEBT SERVICE AND NORMAL OPERATING EXPENSES. MSHDA WILL CONTRACT WITH A MARKET ANALYSIS FIRM TO CONDUCT THIS STUDY, WITH THE COST BORNE BY THE MORTGAGOR. THE IMPACT OF THE PROPOSED HOUSING ON OTHER MSHDA DEVELOPMENTS IN THE AREA AND THE DIFFERENTIAL BETWEEN MARKET RENT UNITS AND THE PROPOSED HOUSING WILL BE FACTORS IN ACCEPTING PROPOSALS FOR FINANCING.
- C. Part "A" Loan:** A 35-year Part "A" loan will be established using the lesser of the acceptable rent comp study rent levels, trended for the remaining term of the Section 8 HAP contract, or the current Section 8 contract rents. An annual increase of 1% will be assumed when trending the rents that support the Part A loan, unless the sponsor provides data to support a more appropriate factor.
- D. Part "B" Loan:** A Part "B" loan may be established using the difference between the trended market rents and the actual contract rents. The term of this loan will equal the remaining term on the HAP contract.
- E. Income and Rent Restrictions:** ~~Section 8 income limits apply~~ Until the expiration of the HAP, **THE LESSER OF SECTION 8 OR THE** ~~at which time applicable LIHTC income~~ **LIMITS**, and **AFTER HAP EXPIRATION, APPLICABLE LIHTC INCOME** ~~rent~~ restrictions linked to 60% AMI will apply for the balance of the term of affordability.
- F. RENT RESTRICTIONS:** UNTIL THE EXPIRATION OF THE HAP, THE SECTION 8 RENT LIMITS APPLY. AFTER HAP EXPIRATION, APPLICABLE LIHTC RENT RESTRICTIONS LINKED TO 60% AMI WILL APPLY FOR THE BALANCE OF THE TERM OF AFFORDABILITY.
- G. CASH FLOW TRENDING PROJECTIONS:** MSHDA WILL USE HISTORICAL DATA TO TREND SECTION 8 RENT INCREASES UNTIL THE CURRENT HAP EXPIRES. MSHDA WILL ASSUME A 2% RENTAL INCOME INCREASE AFTER THE PROJECTED HAP TERMINATION. DEVELOPMENTS WITH PROJECTED OPERATING DEFICITS MAY BE REQUIRED TO FUND AN OPERATING DEFICIT RESERVE.
- H. Replacement Reserve:** The annual deposit to the Replacement Reserve on the first full year of the new loan will not be less than \$300 per unit. ~~The required minimum initial deposit in the replacement reserve account will be~~ **FURTHERMORE, AT THE MORTGAGE LOAN CLOSING THE SPONSOR MUST DEPOSIT** the greater of \$700 per unit or the amount determined necessary to satisfy the requirements of the Preservation Capital Needs Assessment **OVER A 20 YEAR PERIOD.**
- I. Operating Assurance Reserve:** A Preservation Operating Assurance Reserve (OAR) will be established equal to four months estimated operating expenses, payments required under the mortgage note, deposits to reserves and other

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anticipated development expenses. The OAR will be held by MSHDA and will accumulate interest.

This reserve, to assist in the transition to market rents, is to be fully funded by the anticipated end of the existing HAP contract. Funds may be withdrawn when the existing HAP contract and all extensions expire, and will not be available prior to that date, **AFTER THEN IT MAY BE USED IN ACCORDANCE WITH THE AUTHORITY'S WRITTEN POLICY ON THE USE OF THE OAR, AS AMENDED FROM TIME TO TIME.** MSHDA may allow a reduced initial deposit to the OAR as long as the initial deposit plus accumulated interest income equals the required deposit by the time the existing HAP contract expires.

If no Preservation Fund loan is involved, ~~the OAR will be released to the development's operating account after all~~ **AND AT THE LATER OF THE ORIGINAL TERM OF THE** project based HAP assistance has been terminated, **OR THE END OF THE 12<sup>TH</sup> YEAR FROM INITIAL DISBURSEMENT,** and following two full calendar years (twenty-four consecutive months) with annual average vacancy loss plus rent concessions plus bad-debt equaling 5% or less of the yearly MSHDA approved budgeted gross rent potential, **THE OAR WILL BE USED TO FULLY FUND THE REPLACEMENT RESERVE NEEDS IDENTIFIED BY AN UPDATED INDEPENDENT COMPREHENSIVE NEEDS ANALYSIS AND TO FULLY FUND ANY OTHER ESCROW ACCOUNTS.** Upon achieving this criterion, the mortgagor may request in writing to the Director of Asset Management that any remaining balance in the OAR be disbursed to the development's operating account.

In loans with a Preservation Fund loan, the unutilized OAR will be returned to MSHDA in an amount not to exceed the outstanding balance of the PF loan, with the any remainder going to the development's operating account, after meeting the same criterion above.

In the event an operating deficit reserve is required, the OAR requirement may be waived.

- J. OPERATING DEFICIT RESERVE:** An Operating Deficit Reserve (ODR) may be required based on a cash flow analysis over a 20-year period. When required, the mortgagor must enter into an agreement and establish an ODR with the Authority with an initial deposit at closing. The ODR shall be funded in cash, held and controlled by the Authority and will be invested and reinvested by the Authority's Office of Finance. Interest earned on this reserve, if any, shall become part of this reserve and shall be treated and disbursed in the same way.

The amount disbursed annually from the ODR will be the annual projected budget deficit as shown on cash flow analysis establishing the ODR. Each month the Authority will withdraw 1/12th of the projected annual deficit for that specific year from the ODR, and will apply it against the mortgage payment due that month. The annual disbursement will remain unchanged until the Mortgagor requests an increase, which can be made up to the amount on Attachment A for that year. This will continue each year until the ODR has been depleted or the Authority's mortgage loan(s) are paid in full.

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In the event that the development experiences an operating deficit that is greater than that projected, the Mortgagor may request that the Authority increase the amount drawn from the ODR. The Director of Asset Management must approve the request. However, the Mortgagor shall not be entitled to receive a Limited Dividend payment for any year in which the amount drawn from the ODR is greater than the amount identified in Attachment A for that year, until the balance of the ODR is restored to the appropriate level.

At the earlier of the time when the ODR has been depleted or during the 20<sup>th</sup> year after mortgage loan closing, the Authority will determine the annual projected operating deficits and the total amount sufficient to fund projected operating deficits through the remaining term of the Authority's mortgage loan(s). The Mortgagor must deposit this amount in cash into the ODR, to be held by the Authority and disbursed as noted above. Failure to replenish the ODR, when required by the Authority, shall constitute a default on the Mortgage Loan. In the event that the Authority's Mortgage Loan is accelerated after a default in the terms of the Mortgage, Notes or Regulatory Agreement, the Authority, in its sole discretion, may, but is not required to, apply any funds on deposit in the ODR, to the amount due on the Mortgage Loans as accelerated.

At such time as the Authority's Mortgage Loan(s) and all other financial obligations to the Authority are paid in full, the remaining balance of the ODR, including all interest that has accumulated, will be disbursed to the Mortgagor.

- K. OPERATING ~~Other~~ Reserve:** ~~1) One month's gross rent potential will be required to be deposited to the operating account of the development at closing, 2) possible capitalized operating deficit escrow based on a cash flow analysis.~~
- L. Vacancy Loss:** Initial vacancy loss will be projected based on the average of the previous two years annual vacancy loss, but in no case less than 3%.
- M. Developer Fee Limitations:** ~~The maximum Developer Fee allowable will be calculated as a percentage of the acquisition cost plus a percentage of the "Fee-based Development Costs" (defined as total development costs, less acquisition, capitalized operating assurance and deficit reserves, developer's fee, and costs attributable to syndication). The Developer Fee is calculated as follows:~~
- ~~• 10% of project acquisition cost; plus~~
  - ~~• 15% of Fee-based Development Costs~~
  - ~~• Not to exceed the limits defined in Michigan's Qualified Allocation Plan~~

~~Developers contributing at least 2.5% of their allowable developer fee associated with acquisition costs to the Resident Services Fund will be allowed 15% of both acquisition and fee-based development costs as defined above.~~ **FOR ACQUISITION/REHABILITATION OR PRESERVATION PROJECTS OF 49 UNITS OR FEWER, THE COMBINED TOTAL OF THE DEVELOPER FEE, DEVELOPER OVERHEAD, AND ANY CONSULTANT FEES WILL BE LIMITED TO \$2,000,000. THIS SHALL BE CALCULATED AS 20% OF THE TOTAL DEVELOPMENT COST, LESS: DEVELOPER FEE, DEVELOPER OVERHEAD, DEVELOPER CONSULTANT FEE, AND CERTAIN PROJECT RESERVES. FOR PROJECTS OF 50 UNITS OR MORE, THE COMBINED TOTAL OF THE DEVELOPER FEE,**

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DEVELOPER OVERHEAD, AND ANY CONSULTANT FEE SHALL BE LIMITED TO \$2,000,000. THIS SHALL BE CALCULATED AS 10% OF TOTAL ACQUISITION COST OF LAND AND BUILDING(S), AND 15% OF THE TOTAL REHABILITATION COST, LESS: DEVELOPER FEE, DEVELOPER OVERHEAD, DEVELOPER CONSULTANT FEE, AND CERTAIN PROJECT RESERVES.

DEVELOPERS CONTRIBUTING AT LEAST 2.5% OF THEIR ALLOWABLE DEVELOPER FEE TO THE RESIDENT SERVICES FUND WILL BE ALLOWED 15% OF BOTH ACQUISITION AND REHAB COSTS AS DEFINED ABOVE.

FOR NEW CONSTRUCTION PROJECTS OF 49 UNITS OR FEWER, THE COMBINED TOTAL OF THE DEVELOPER FEE, DEVELOPER OVERHEAD, AND ANY CONSULTANT FEES SHALL BE LIMITED TO \$2,000,000. THIS SHALL BE CALCULATED AS 20% OF TOTAL DEVELOPMENT COSTS, LESS: DEVELOPER FEE, DEVELOPER OVERHEAD, AND DEVELOPER CONSULTANT FEES. FOR NEW CONSTRUCTION PROJECTS OF 50 UNITS OR MORE, THE COMBINED TOTAL OF THE DEVELOPER FEE, DEVELOPER OVERHEAD, AND ANY CONSULTANT FEES SHALL BE LIMITED TO \$2,000,000. THIS SHALL BE CALCULATED AS 15% OF TOTAL DEVELOPMENT COSTS, LESS: DEVELOPER FEE, DEVELOPER OVERHEAD, AND DEVELOPER CONSULTANT FEES.

IF AN EXISTING PROJECT IS SPLIT INTO TWO OR MORE PROJECTS, THE AGGREGATE DEVELOPER FEE FOR ALL PROJECTS CANNOT EXCEED \$2,000,000.

- N. **Limited Dividend Calculations:** For ~~Pre-1980~~ developments **SUBJECT TO PRE 1980 REGULATIONS**, LD's will typically be limited to 12% of equity. **FOR DEVELOPMENTS INITIALLY FINANCED BY MSHDA**, the equity upon which an LD is based will be ~~increased to include~~ **THE SUM OF** the original equity plus the total principal payments made on the original loan **BY THE ORIGINAL BORROWER PRIOR TO ANY REPAYMENT OF THE ORIGINAL LOAN**. Returns will be non-cumulative and Seller waiver of accumulated and **CURRENT YEAR** deferred LD fees will be required. **FOR DEVELOPMENTS NOT INITIALLY FINANCED BY MSHDA, THE EQUITY UPON WHICH AN LD IS BASED WILL BE 12% OF THE EQUITY OF THE NEW TRANSACTION.**

~~For post-1980 MSHDA developments and~~ **FOR DEVELOPMENTS SUBJECT TO POST 1980 REGULATIONS, WHETHER MSHDA OR non-MSHDA** financed, developments the rate of LD will be limited based on HUD regulations. The equity upon which an LD is based will be the original equity unless HUD approves a higher amount.

**RETURNS WILL BE NON-CUMULATIVE AND SELLER WAIVER OF ACCUMULATED AND CURRENT YEAR DEFERRED LD FEES WILL BE REQUIRED.**

- O. **CONSTRUCTION CONTRACT ALLOWANCES:** LINE ITEM ALLOWANCES WITHIN THE CONSTRUCTION CONTRACT IS 6% FOR BUILDER PROFIT, 2% FOR BUILDER OVERHEAD, AND 6% FOR GENERAL REQUIREMENTS OF THE TOTAL CONSTRUCTION CONTRACT AMOUNT.

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**IV. Other Requirements/Information:**

- A. Application processing:** A 6-MONTH PROCESSING TIME FROM APPLICATION TO CLOSING IS ANTICIPATED, INCLUDING THE COMPLETION OF A PRESERVATION CAPITAL NEEDS ASSESSMENT (subject to necessary HUD approvals and timely submission of required documents): **EXPEDITED PROCESSING OPTION IS AVAILABLE UPON REQUEST:**
- ~~1. For current MSHDA developments:~~ 6 month processing time from application to closing is anticipated, including the completion of a Preservation Capital Needs Assessment.
  - ~~2. For non-MSHDA developments:~~ MSHDA will conduct site visit and make determination on acceptability of proposal within 30 days of application. Closing within 6 months of receipt of complete application.
- B. HUD Approval/HAP Extensions:** HUD must approve the assignment of the HAP and the 2530's of the new development team. Prior to the existing HAP expiration, all developments must apply for and accept any available HAP or other HUD subsidy extensions, subject to MSHDA approval. Non-MSHDA developments must receive a 20-year Section 8 contract renewal as part of the application process.
- C. No Relocation:** Involuntary permanent relocation of existing residents is not permitted under the program.
- D. Contract Administration:** It is anticipated HUD will designate MSHDA as the contract administrator.
- E. Tax Abatement:** If underwriting requires tax abatement, documentation from the local unit of government must confirm its continuance **THE AUTHORITY MUST BE SATISFIED THAT THE TAX ABATEMENT SHALL BE IN EFFECT** for the 35-year MORTGAGE term. **ESCALATING PILOTS WILL BE UNDERWRITTEN AT THE MAXIMUM RATE, RATHER THAN THE INITIAL RATE.**
- F. TRANSITION PLAN:** THE NEW OWNER AND ITS MANAGEMENT AGENT MUST DEVELOP A TRANSITION PLAN DETAILING THE EFFORTS THE AGENT WILL USE TO TRAIN STAFF AND MARKET UNITS AS NON-SUBSIDIZED UNITS OR AT HIGHER RENTS, TO ASSURE ON-SITE STAFF ARE TRAINED IN MSHDA REPORTING AND COMPLIANCE REQUIREMENTS AND TO MAINTAIN EXISTING RESIDENTS THROUGH THE CONSTRUCTION AND TRANSITION PERIOD.
- G. Reserve Ownership:** Applicants must affirm MSHDA's ownership of excess reserves not otherwise controlled by HUD.
- H. Fees:** Application fee of \$500 for currently MSHDA-financed developments and \$1000 for non-MSHDA. A 2% Commitment fee and LIHTC and compliance fees apply. Preservation Capital Needs Assessment fee based on size of development.

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- I. **Syndication and other Equity Pay-In:** ~~A consultation between the mortgagor, MSHDA, and the syndicator is recommended to determine an MSHDA'S ASSIGNED HDO WILL FACILITATE A CONSULTATION PROCESS WITH THE SPONSOR, APPROPRIATE MSHDA STAFF, AND THE SPONSOR'S SYNDICATOR IN ORDER TO ARRIVE AT A MUTUALLY acceptable and detailed schedule setting forth BOTH the timing of the anticipated payment of all costs necessary to complete the development, and achieve sustaining occupancy. This schedule must further compare the "uses" of funds over time with the proposed availability of "sources" of funds. It is expected that 75% of all general project costs be paid in by 50% construction completion and 100% by 75% completion.~~

~~Conditions to any non-MSHDA source of funds will be reviewed and may be rejected if those conditions jeopardize the availability of the funding when it is needed. With the exception of payments of developer fees directly from the equity partner to the mortgagor, all non-MSHDA sources of funding must be deposited with and disbursed through MSHDA.~~

~~At its discretion, MSHDA may provide construction financing to bridge equity pay-ins. ALONG WITH THE SOURCES OF SUCH PAYMENTS. THIS FACILITATION SHALL TAKE PLACE SHORTLY AFTER THE MSHDA BOARD APPROVES THE FEASIBILITY/COMMITMENT REPORT AND WILL BE SPECIAL CONDITION OF THAT REPORT. A MORTGAGE LOAN CLOSING WILL NOT BE SCHEDULED UNTIL THERE IS AN AGREEMENT AMONG THE PARTIES AS TO THE SCHEDULE OF FUNDING.~~

IT IS EXPECTED THAT MSHDA SHALL RECEIVE SUFFICIENT EQUITY AND OTHER CONTRIBUTIONS TO ASSURE THAT WHEN COMBINED WITH MORTGAGE LOAN PROCEEDS, THERE WILL BE SUFFICIENT FUNDS TO ASSURE PAYMENT OF DEVELOPMENT COSTS DURING CONSTRUCTION. MSHDA WILL WORK WITH BOTH THE SPONSOR AND THE SYNDICATOR ON TIMING ISSUES AND WORK TO IDENTIFY MUTUALLY AGREEABLE SOLUTIONS TO FILL FUNDING GAPS AS APPROPRIATE TO THE PARTICULAR SITUATION. HOWEVER, IN NO EVENT WILL MSHDA AGREE TO A CONDITION(S) THAT IT DETERMINES JEOPARDIZE THE AVAILABILITY OF FUNDING WHEN IT IS NEEDED. WITH THE EXCEPTION OF PAYMENTS OF DEVELOPER FEES DIRECTLY FROM THE EQUITY PARTNER TO THE MORTGAGOR, ALL NON-MSHDA SOURCES OF FUNDS MUST BE DEPOSITED WITH AND DISBURSED THROUGH MSHDA.

- J. **EQUAL OPPORTUNITY:** MSHDA REQUIRES A PLAN FROM:

- A. THE PRIME CONTRACTOR IS TO PROVIDE EQUAL OPPORTUNITY PLAN FOR WORKFORCE TRADE UTILIZATIONS AND FOR BUSINESS CONTRACTING ENTERPRISES TO SUBCONTRACTORS AND MATERIAL SUPPLIERS; AND
- b. THE MANAGEMENT AGENT TO AGGRESSIVELY AND AFFIRMATIVELY MARKET THE HOUSING TO MINORITY GROUPS.



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- K. COST CERTIFICATION:** MSHDA WILL RELY ON THE LIHTC COST CERTIFICATION AND WILL NOT REQUIRE A SEPARATE COST CERTIFICATION FOR PRESERVATION TRANSACTIONS.
- L. LOAN MANAGEMENT:** MSHDA'S OFFICE OF ASSET MANAGEMENT MONITORS A DEVELOPMENT'S OPERATIONS FOR COMPLIANCE WITH CONTROLLING LOAN DOCUMENTS AND ITS FINANCIAL AND PHYSICAL CONDITION THROUGH A VARIETY OF REPORTING SYSTEMS. THESE SYSTEMS INCLUDE ELECTRONIC SUBMISSION OF MONTHLY INCOME AND EXPENSE STATEMENTS, REVIEW AND APPROVAL OF ANNUAL BUDGETS AND AUDITS, APPROVAL OF THE USE OF RESERVES, AND OTHER REQUIRED REPORTS. A DEVELOPMENT'S COMPLIANCE WITH RESIDENT INCOME ELIGIBILITY, RENTAL RESTRICTIONS, AND PHYSICAL INSPECTIONS IS MONITORED BY MSHDA'S COMPLIANCE DIVISION.
- M. Unique Circumstances:** Developers are encouraged to discuss unique preservation opportunities not within the above-described parameters with MSHDA Multifamily Development staff to determine the potential for waiver of certain of these parameters.
- N. INACTIVE APPLICATIONS:** A HOUSING DEVELOPMENT OFFICER, IN CONSULTATION WITH THE MSHDA DEVELOPMENT MANAGER AND DIRECTOR OF MULTIFAMILY DEVELOPMENT WILL DETERMINE AN APPLICATION TO BE INACTIVE AND PLACE IT IN THE "INACTIVE" PIPELINE IF THE SPONSOR IS UNABLE TO SUBMIT MATERIALS REQUIRED FOR CONTINUED PROCESSING IN A TIMELY MANNER (GENERALLY, 30 DAYS FROM THE REQUEST FOR SUCH MATERIALS). ADDITIONALLY, SPONSORS MAY REQUEST THAT AN APPLICATION BE MADE "INACTIVE" FOR ANY REASON.

WHEN AN APPLICATION IS PLACED IN "INACTIVE" STATUS, IT LOSES ITS INTEREST RATE LOCK. THE INTEREST RATE FOR AN "INACTIVE" APPLICATION WILL BE DETERMINED UPON RE-ACTIVATION. AN "INACTIVE" STATUS DOES, HOWEVER, ACT AS A PLACEHOLDER FOR THE MARKET. AS LONG AS AN APPLICATION IS IN THE "INACTIVE" PIPELINE, NO NEW APPLICATION FOR THE SAME DEVELOPMENT TYPE WILL BE CONSIDERED FOR THIS MARKET, WITHOUT THE SPONSOR OF THE INACTIVE APPLICATION FIRST HAVING A CHANCE TO RESOLVE THE INACTIVE STATUS.

PRESERVATION FUNDS WILL NOT BE HELD FOR APPLICATIONS IN THE INACTIVE PIPELINE.

UPON RECEIPT OF ANOTHER, NEW APPLICATION IN THE SAME MARKET AREA, MSHDA WILL IMMEDIATELY NOTIFY BOTH THE NEW APPLICANT AND THE SPONSORS OF ANY INACTIVE APPLICATION(S) IN THAT MARKET AREA. SPONSORS WITH AN APPLICATION IN THE "INACTIVE" PIPELINE MUST:

- NOTIFY MSHDA IN WRITING THAT THEY WISH TO ACTIVATE THE APPLICATION WITHIN FOURTEEN DAYS OF THE DATE OF THE NOTICE, AND

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- **SUBMIT ALL OUTSTANDING DOCUMENTATION REQUIRED FOR PROCESSING WITHIN THIRTY (30) DAYS OF THE DATE OF NOTICE.**

IF THE SPONSOR SATISFIES BOTH OF THESE CONDITIONS, THE APPLICATION WILL BE REACTIVATED. IF THE SPONSOR FAILS TO SATISFY EITHER OF THE CONDITIONS ABOVE, THE "INACTIVE" APPLICATION BECOMES VOID AND THE NEW APPLICATION WILL BE REVIEWED. THE SPONSOR OF THE NEW APPLICATION WILL BE NOTIFIED OF THE HOLD ON THEIR APPLICATION, PENDING DISPOSITION OF THE INACTIVE APPLICATION AND MAY CHOOSE TO BE PLACED IN THE INACTIVE PIPELINE UNTIL THE COMPETING APPLICATION HAS RECEIVED MORTGAGE LOAN COMMITMENT.

THE MAXIMUM AMOUNT OF TIME ANY APPLICATION WILL BE CONSIDERED "INACTIVE" IS SIX (6) MONTHS FROM THE DATE IT BECOMES INACTIVE. AFTER SIX (6) MONTHS, THE APPLICATION WILL BE REMOVED AND CONSIDERED VOID.

TO ACTIVATE AN APPLICATION PREVIOUSLY CONSIDERED "INACTIVE", THE SPONSOR MUST SUBMIT WRITTEN INTENT TO MSHDA. ALL REQUIRED DOCUMENTATION MUST BE SUBMITTED WITHIN 30 DAYS OF THE DATE OF THIS LETTER OF INTENT OR THE APPLICATION IS VOID. NO ADDITIONAL FEES ARE REQUIRED TO ACTIVATE AN APPLICATION; HOWEVER, MSHDA MAY, AT ITS SOLE DISCRETION, DECLINE TO ACTIVATE ANY APPLICATION AND/OR MAY REMOVE ANY APPLICATION FROM ITS PIPELINE.

**V. For currently financed MSHDA developments only:**

- A. Level Debt Service:** Debt service on the new loan must equal or exceed the previous debt service, unless HUD approves a reduction.
- B. REPAYMENT OF EXISTING INDEBTEDNESS:** ALL REPAYABLE SUBSIDY LOANS, DEFERRED INTEREST, HOME OR OTHER SECONDARY FINANCING, SUCH AS SMALL SIZE, SECURITY, AND AMENITY LOANS ARE TO BE REPAYED UPON REFINANCING. ASSUMPTION OF THESE LOANS IS NOT ANTICIPATED, NOR IS FURTHER SECONDARY FINANCING AVAILABLE TO ADDRESS THIS INDEBTEDNESS.
- C. Replacement Reserve Draws:** Replacement reserve draws will not be processed subsequent to a preservation loan application, without notification to MSHDA's Development Division.

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April 26, 2006 **September 26, 2007**

MSHDA is offering tax-exempt preservation lending to extend the affordability, viability, and livability of existing Section 236 developments for a minimum of 35 years.

Loans will be provided based on the extent to which the following objectives are met:

1. The rehabilitation addresses physical needs of the property, including those directly related to the enhancement of resident livability and functionality.
2. Long-term income targeting significantly balances the loss of Rent Supplement or RAP in currently financed MSHDA developments.
3. The loan will be a long-term earning asset.
4. The transaction uses the least amount of Preservation Fund loan necessary or contributes resources to the Preservation Fund.
5. The longest possible term of affordability is achieved.

**I. Eligibility and Resource Availability:**

- A. Eligible Developments:** Any Section 236 development in Michigan is eligible to apply for a tax-exempt loan from MSHDA.
- B. ELIGIBLE BORROWERS:** A SPONSOR/DEVELOPER MAY BE A NONPROFIT, AN INDIVIDUAL, A GROUP OF INDIVIDUALS, A CORPORATE ENTITY, OR SOME COMBINATION. PRIOR TO MORTGAGE LOAN COMMITMENT, A LEGAL ENTITY MUST BE FORMED THAT IS AN "ELIGIBLE BORROWER" UNDER THE AUTHORITY'S ACT.
- ~~**B. Bond Cap:** \$75 million of tax-exempt bond cap will be allocated, with no more than \$25 million available for non-MSHDA developments.~~
- C. Minimum Rehab:** At least ~~\$5,000~~ **\$10,000** in rehab/unit and 15% of acquisition cost required, with emphasis on improvements benefiting residents (Preservation Capital Needs Assessment).
- D. Preservation Fund Loan:** In the event the Authority determines the transaction will not adequately address unmet physical needs, a Preservation Fund (PF) loan may be available at 3% simple interest. Monthly payments based on a 50-year amortization will be due until the end of the first mortgage. At the end of the first mortgage term, the outstanding balance of the PF loan, including accrued interest, will become the new first mortgage and begin amortization with monthly mortgage payments equal to the payments under the original first mortgage, **WITH THE BALANCE OF PRINCIPAL AND ALL INTEREST DUE AT THE EARLIER OF SALE OF THE DEVELOPMENT, REFINANCING OF THE MORTGAGE LOAN OR 50 YEARS AFTER CLOSING.**

If more than 40% of the allowable developer fee is deferred, the developer has two options:

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1. Interest will accrue, but PF loan amortization may be deferred until the deferred developer fee has been paid, but no later than the end of the 12<sup>th</sup> year. Beginning at **THE EARLIER OF THE YEAR IN WHICH THE DEVELOPER FEE HAS BEEN PAID IN FULL OR IN the 13<sup>th</sup> year**, annual payments ~~will be made from available cash flow,~~ **WILL BE PAYABLE FROM TWENTY-FIVE PERCENT OF ANY SURPLUS CASH AVAILABLE FOR DISTRIBUTION TO THE OWNER**, applied first to accrued interest, then to current interest and principal, **WITH THE BALANCE OF PRINCIPAL AND ALL INTEREST DUE AT THE EARLIER OF SALE OF THE DEVELOPMENT, REFINANCING OF THE MORTGAGE LOAN OR 50 YEARS AFTER CLOSING.**
2. If the developer agrees to contribute at least 3% of the allowable developer fee to the Resident Services Fund, MSHDA will allow a Preservation Fund loan sufficient to reduce the deferred developer fee to 30%. Interest will accrue, but PF loan amortization may be deferred until the deferred developer fee has been paid, but no later than the end of the 12<sup>th</sup> year. Beginning at **THE EARLIER OF THE YEAR IN WHICH THE DEVELOPER FEE HAS BEEN PAID IN FULL OR IN the 13<sup>th</sup> year**, annual payments ~~will be made from available cash flow,~~ **WILL BE PAYABLE FROM TWENTY-FIVE PERCENT OF ANY SURPLUS CASH AVAILABLE FOR DISTRIBUTION TO THE OWNER**, applied first to accrued interest, then to current interest and principal, **WITH THE BALANCE OF PRINCIPAL AND ALL INTEREST DUE AT THE EARLIER OF SALE OF THE DEVELOPMENT, REFINANCING OF THE MORTGAGE LOAN OR 50 YEARS AFTER CLOSING.**

At the end of the first mortgage term, the outstanding balance of the PF loan, including accrued interest, will become the new first mortgage and begin amortization with monthly mortgage payments equal to the payments under the original first mortgage, **WITH THE BALANCE OF PRINCIPAL AND ALL INTEREST DUE AT THE EARLIER OF SALE OF THE DEVELOPMENT, REFINANCING OF THE MORTGAGE LOAN OR 50 YEARS AFTER CLOSING.**

- E. **Resident Services Fund:** This fund will be administered by a 501c3 non-profit created for this purpose or some other entity, as approved by MSHDA, for the purpose of funding supportive services such as youth development activities, job training and placement, service coordinators in senior housing, child care services, or other necessary and appropriate resident services. Any affordable rental housing development in Michigan is eligible to apply for funding from the RSF.
- F. **Michigan Green Communities Grant:** A grant of \$1,000 per affordable unit, up to a maximum of \$50,000 **PER PROJECT**, is available from MSHDA for rehabilitated developments meeting the Michigan Green Communities Criteria. The Enterprise Foundation will match funds and a \$3,000 grant is provided for administrative reporting.
- G. **Tax-Exempt Eligibility:** All proposals must include rehabilitation in an amount that ~~satisfies the 15 percent test of the Internal Revenue Code for the use of private activity bond cap~~ **EXPENDITURES WITH RESPECT TO EACH BUILDING, WHICH**

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**MUST EQUAL OR EXCEED 15 PERCENT OF THE PORTION OF THE COST OF ACQUIRING SUCH BUILDING (AND EQUIPMENT), and the proposed tax exempt financing must equal at least 51% of the total development cost. PARTICIPATION IN THE HOUSING TAX CREDIT PROGRAM IS REQUIRED AND UNDERWRITING STANDARDS OF THE QUALIFIED ALLOCATION PLAN WILL APPLY.**

**II. Interest rate and term:**

- A. Rate:** ~~The rate will be based on a municipal index to be updated and posted weekly on MSHDA's Web site. Typically MSHDA will bear the cost of any risk-sharing insurance, should it be required, within this rate.~~ **THE RATE WILL BE 6.45%, SUBJECT TO CHANGE BASED ON MSHDA'S COST OF BORROWING. CHANGES IN RATE WILL BE POSTED ON MSHDA'S WEB SITE. TYPICALLY, MSHDA WILL BEAR THE COST OF ANY RISK-SHARING INSURANCE, SHOULD IT BE REQUIRED, WITHIN THIS RATE. AT MSHDA'S DISCRETION, INTEREST RATE DEFERRAL TO A LOWER PAY RATE MAY BE CONSIDERED BASED ON FINANCIAL FEASIBILITY. THE TERMS OF REPAYMENT OF DEFERRED INTEREST WILL BE NEGOTIATED ON A CASE BY CASE BASIS.**
- B. Timing:** Rate determined at close of business on date of receipt of complete application. Locked in for maximum 6-month processing time.
- B. Special Rate:** ~~Up to 1/2% of the interest rate may be deferred if at least 15% of the units will be affordable to a targeted special needs population with services provided in accordance with a MSHDA-approved Addendum III supportive services plan. This deferral will be forgiven if an acceptable level of services continue for the term of affordability and will be eliminated in the event services are not provided.~~
- C. CONCESSIONS AND INDUCEMENTS:** **A 1/2 PERCENT RATE REDUCTION MAY BE AVAILABLE IF AT LEAST 15% OF THE UNITS ARE AFFORDABLE TO A TARGETED POPULATION WITH SERVICES TO BE PROVIDED IN ACCORDANCE WITH A MSHDA-APPROVED ADDENDUM III SUPPORTIVE SERVICES PLAN. THIS REDUCTION WILL BE FORGIVEN IF AN ACCEPTABLE LEVEL OF SERVICES CONTINUES FOR THE TERM OF AFFORDABILITY AND THE INTEREST RATE WILL BE RAISED IN THE EVENT SERVICES ARE NOT PROVIDED. INTEREST RATE DEFERRAL MAY BE AVAILABLE IN CERTAIN MSHDA-DESIGNATED COMMUNITIES, SUCH AS CITIES OF PROMISE AND VERY LOW INCOME COUNTIES. IN PROJECTS WHERE AN INTEREST RATE DEFERRAL IS GIVEN, THE DEFERRED INTEREST SHALL BE REPAYED ANNUALLY, USING THE REPAYMENT TERMS NOTED ABOVE FOR THE PRESERVATION FUND LOAN, HOWEVER ALL DEFERRED INTEREST ON THE FIRST MORTGAGE WILL BE DUE AND PAYABLE ON THE MATURITY DATE OF THE FIRST MORTGAGE. NO ANNUAL DEBT SERVICE WILL BE DUE ON THE PRESERVATION FUND LOAN WHILE THE FIRST MORTGAGE IS OUTSTANDING, BUT AT THE END OF THE FIRST MORTGAGE TERM, THE OUTSTANDING BALANCE OF THE PRESERVATION FUND LOAN, INCLUDING ACCRUED INTEREST, WILL BECOME THE NEW FIRST MORTGAGE AND BEGIN AMORTIZATION WITH MONTHLY MORTGAGE PAYMENTS EQUAL TO THE PAYMENTS UNDER THE ORIGINAL FIRST MORTGAGE. WITH THE BALANCE OF PRINCIPAL AND ALL INTEREST DUE AT THE EARLIER OF SALE OF THE DEVELOPMENT, REFINANCING OF THE MORTGAGE LOAN OR 50 YEARS AFTER CLOSING.**

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- D. DEBT COVERAGE:** MSHDA REQUIRES A MINIMUM DEBT COVERAGE RATIO OF 1.10, BASED ON THE ASSESSMENT OF RISK ASSOCIATED WITH THE DEVELOPMENT.
- E. LOAN INSURANCE:** MSHDA reserves the right to require the submission of documents necessary to obtain HUD risk-sharing (50/50) **OR FULL FHA** insurance. Typically MSHDA will bear the cost of any risk-sharing insurance, should it be required. If the mortgagor requests risk-sharing insurance, the premium cost will be borne by the mortgagor.
- F. Term/Prepayment:** Neither Part "A" or Part "B" loan is eligible for prepayment. After the 15<sup>th</sup> year, MSHDA may, **AT ITS SOLE DISCRETION**, allow prepayment of the mortgage after consultation with the owner regarding the development's physical and financial needs. ~~Factors to be considered include the ability to access additional funds to address capital needs and changing partnership interests.~~ In the event MSHDA permits a prepayment, the mortgagor must pay a 1% prepayment penalty plus any bond call premium, prepayment or swap penalty **AND LOSS OF SPREAD BETWEEN THE LOAN AND BOND RATE USED TO FINANCE THE LOAN FROM THE DATE OF THE PREPAYMENT THROUGH THE END OF THE 20<sup>TH</sup> YEAR OF AMORTIZATION.**
- A MORTGAGOR INTERESTED IN PREPAYING A MORTGAGE WILL BE RESPONSIBLE FOR PAYING ANY COSTS ASSOCIATED WITH TERMINATION OF AN EQUAL AMOUNT OF AN INTEREST RATE SWAP AGREEMENT (SWAP). ONCE THE MORTGAGOR HAS BEEN APPROVED FOR THE EARLY PREPAYMENT OF THE UNDERLYING LOAN, THEY WILL SIGN AN AGREEMENT WITH MSHDA STATING THEY ARE RESPONSIBLE FOR THE COST OF TERMINATING THE SWAP. THE MORTGAGOR CAN THEN CHOOSE THE TIMING OF THE TERMINATION AND PARTICIPATE IN THE TRANSACTION WITH THE SWAP COUNTERPARTY (LEHMAN, MERRILL LYNCH OR GOLDMAN SACHS). THE SWAP COUNTERPARTY WILL QUOTE THE COST OF TERMINATING THE SWAP AND THE MORTGAGOR WILL HAVE THE ABILITY TO EXECUTE THE TRANSACTION OR CANCEL AT THEIR SOLE DISCRETION. IF THE MORTGAGOR CHOOSES NOT TO TERMINATE THE SWAP, THEY WILL FORFEIT THE RIGHT TO PREPAY THE MORTGAGE.**
- G. Affordability Restrictions:** ~~Affordability restrictions must extend~~ **IMPOSED AT THE CLOSING OF THE MORTGAGE LOAN MUST REMAIN IN PLACE** for 90 YEARS. ~~the originally scheduled term of the MSHDA mortgage(s) or 50 years~~
- H. OTHER:** **ADDITIONAL PROGRAM REQUIREMENTS AS DEFINED IN THE MICHIGAN QUALIFIED ALLOCATION PLAN.**

**III. Underwriting Standards:**

- A. Appraisal:** MSHDA will contract for a certified general appraisal to establish the "as-is" value of the property as a market rate rental and "as rehabilitated" as a subsidized rental development. This appraisal will take 60 to 90 days from the time it is requested. Information regarding current tenancy of the development, including gross annual income, rent currently paid, age, length of residency, and other demographics will also be required, as will vacancy rates and turnover data for the past 3 years.

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- B. Market Determination:** THE MARKET FOR THE DEVELOPMENT AND THE PROPOSED RENTS MUST BE SUPPORTED BY A PROFESSIONAL, INDEPENDENT MARKET ANALYSIS AS DETERMINED BY MSHDA, AND MUST BE SUFFICIENT TO MEET DEBT SERVICE AND NORMAL OPERATING EXPENSES. MSHDA WILL CONTRACT WITH A MARKET ANALYSIS FIRM TO CONDUCT THIS STUDY, WITH THE COST BORNE BY THE MORTGAGOR. THE IMPACT OF THE PROPOSED HOUSING ON OTHER MSHDA DEVELOPMENTS IN THE AREA AND THE DIFFERENTIAL BETWEEN MARKET RENT UNITS AND THE PROPOSED HOUSING WILL BE FACTORS IN ACCEPTING PROPOSALS FOR FINANCING.

~~A rent comparability analysis will be required. Information regarding current tenancy of the development, including gross annual income, rent currently paid, age, length of residency, and other demographics will be required, as will vacancy rates and turnover data for the past 3 years. The rent comparability study may be waived, if rent increases are deemed insignificant by MSHDA. See MSHDA's Market Guidelines specific to the Section 236 Preservation Program.~~

- C. Part "A" Loan:** Part "A" is the debt that can be supported by the rental income of the property, less vacancy loss, operating expenses, reserves, and escrows. Part "A" of the first mortgage will be underwritten at a fixed rate over a fully amortizing 35-year term at a minimum of a 1.10 debt coverage ratio.
- D. Part "B" Loan:** Part "B" is the debt that can be supported by the continuing stream of income from the "decoupled" Interest Reduction Payments (IRP) contract. Part "B" of the first mortgage will be underwritten at a fixed rate over a fully amortizing term not to exceed the term remaining on the Interest Reduction Payments contract at a 1.0 debt coverage ratio.
- E. Income Restrictions:** THE LESSER OF THE Section 236 OR THE LIHTC income limits apply until the expiration of the IRP, plus the 5-year extension required by HUD as part of the decoupling program. **AFTER THAT**, LIHTC income restrictions at 60% AMI will apply for the term of affordability.
- F. Rent Restrictions:** Rent levels will be targeted to be affordable to 45% of AMI or the level of income currently served by the development.
- G. Remarketing Reserve:** A Remarketing Reserve Escrow, equal to one year of principal and interest payments of the "Part A" mortgage will be required. Funds may be withdrawn to cover vacancy loss greater than five percent, and/or for marketing expenses. Following twenty-four consecutive months of average economic vacancy loss of 5% or less of the yearly Authority approved budgeted rent levels, the mortgagor may request in writing to the Director of Asset Management any remaining balance in the remarketing reserve be deposited into the development's operating account, unless there is a deferred PF loan to be repaid.
- H. Replacement Reserve:** The annual deposit to the Replacement Reserve on the first full year of the new loan will not be less than \$300 per unit. ~~The required minimum initial deposit in the replacement reserve account will be~~ **FURTHERMORE, AT THE MORTGAGE LOAN CLOSING THE SPONSOR MUST DEPOSIT** the greater of \$700 per unit or the amount determined necessary to satisfy the

## Section 236 Preservation Parameters (Tax-Exempt)

requirements of the Preservation Capital Needs Assessment **OVER A 20 YEAR PERIOD.**

- I. OPERATING DEFICIT RESERVE:** An Operating Deficit Reserve (ODR) may be required based on a cash flow analysis over a 20-year period. When required, the mortgagor must enter into an agreement and establish an ODR with the Authority with an initial deposit at closing. The ODR shall be funded in cash, held and controlled by the Authority and will be invested and reinvested by the Authority's Office of Finance. Interest earned on this reserve, if any, shall become part of this reserve and shall be treated and disbursed in the same way.

The amount disbursed annually from the ODR will be the annual projected budget deficit as shown on cash flow analysis establishing the ODR. Each month the Authority will withdraw 1/12th of the projected annual deficit for that specific year from the ODR, and will apply it against the mortgage payment due that month. The annual disbursement will remain unchanged until the Mortgagor requests an increase, which can be made up to the amount on Attachment A for that year. This will continue each year until the ODR has been depleted or the Authority's mortgage loan(s) are paid in full.

In the event that the development experiences an operating deficit that is greater than that projected, the Mortgagor may request that the Authority increase the amount drawn from the ODR. The Director of Asset Management must approve the request. However, the Mortgagor shall not be entitled to receive a Limited Dividend payment for any year in which the amount drawn from the ODR is greater than the amount identified in Attachment A for that year, until the balance of the ODR is restored to the appropriate level.

At the earlier of the time when the ODR has been depleted or during the 20<sup>th</sup> year after mortgage loan closing, the Authority will determine the annual projected operating deficits and the total amount sufficient to fund projected operating deficits through the remaining term of the Authority's mortgage loan(s). The Mortgagor must deposit this amount in cash into the ODR, to be held by the Authority and disbursed as noted above. Failure to replenish the ODR, when required by the Authority, shall constitute a default on the Mortgage Loan. In the event that the Authority's Mortgage Loan is accelerated after a default in the terms of the Mortgage, Notes or Regulatory Agreement, the Authority, in its sole discretion, may, but is not required to, apply any funds on deposit in the ODR, to the amount due on the Mortgage Loans as accelerated.

At such time as the Authority's Mortgage Loan(s) and all other financial obligations to the Authority are paid in full, the remaining balance of the ODR, including all interest that has accumulated, will be disbursed to the Mortgagor.

- J. Other OPERATING Reserve:** 1) One month's gross rent potential **AND 2) A "RENT-LAG" ESCROW EQUAL TO 2.5 TIMES THE RENT DIFFERENCE PER UNIT** will be required to be deposited to the operating account of the development at closing, ~~2) a capitalized replacement reserve, if determined by the Capital Needs Assessment, 3) a "rent-lag" escrow, and 4) possible capitalized operating deficit escrow based on a cash flow analysis.~~



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**K. Vacancy Loss:** Vacancy loss will be budgeted at a minimum to 5% of gross rent potential. Vacancy loss in excess of 5% may be required.

**L. Developer Fee Limitations:** ~~The maximum Developer Fee allowable will be calculated as a percentage of the acquisition cost plus a percentage of the "Fee-based Development Costs" (defined as total development costs, less acquisition, capitalized operating assurance and deficit reserves, developer's fee, and costs attributable to syndication). The Developer Fee is calculated as follows:~~

- ~~• 10% of project acquisition cost; plus~~
- ~~• 15% of Fee-based Development Costs~~
- ~~• Not to exceed the limits defined in Michigan's Qualified Allocation Plan~~

~~Developers contributing at least 2.5% of their allowable developer fee associated with acquisition costs to the Resident Services Fund will be allowed 15% of both acquisition and fee-based development costs as defined above.~~ **FOR ACQUISITION/REHABILITATION OR PRESERVATION PROJECTS OF 49 UNITS OR FEWER, THE COMBINED TOTAL OF THE DEVELOPER FEE, DEVELOPER OVERHEAD, AND ANY CONSULTANT FEES WILL BE LIMITED TO \$2,000,000. THIS SHALL BE CALCULATED AS 20% OF THE TOTAL DEVELOPMENT COST, LESS: DEVELOPER FEE, DEVELOPER OVERHEAD, DEVELOPER CONSULTANT FEE, AND CERTAIN PROJECT RESERVES. FOR PROJECTS OF 50 UNITS OR MORE, THE COMBINED TOTAL OF THE DEVELOPER FEE, DEVELOPER OVERHEAD, AND ANY CONSULTANT FEE SHALL BE LIMITED TO \$2,000,000. THIS SHALL BE CALCULATED AS 10% OF TOTAL ACQUISITION COST OF LAND AND BUILDING(S), AND 15% OF THE TOTAL REHABILITATION COST, LESS: DEVELOPER FEE, DEVELOPER OVERHEAD, DEVELOPER CONSULTANT FEE, AND CERTAIN PROJECT RESERVES.**

**DEVELOPERS CONTRIBUTING AT LEAST 2.5% OF THEIR ALLOWABLE DEVELOPER FEE TO THE RESIDENT SERVICES FUND WILL BE ALLOWED 15% OF BOTH ACQUISITION AND REHAB COSTS AS DEFINED ABOVE.**

**FOR NEW CONSTRUCTION PROJECTS OF 49 UNITS OR FEWER, THE COMBINED TOTAL OF THE DEVELOPER FEE, DEVELOPER OVERHEAD, AND ANY CONSULTANT FEES SHALL BE LIMITED TO \$2,000,000. THIS SHALL BE CALCULATED AS 20% OF TOTAL DEVELOPMENT COSTS, LESS: DEVELOPER FEE, DEVELOPER OVERHEAD, AND DEVELOPER CONSULTANT FEES. FOR NEW CONSTRUCTION PROJECTS OF 50 UNITS OR MORE, THE COMBINED TOTAL OF THE DEVELOPER FEE, DEVELOPER OVERHEAD, AND ANY CONSULTANT FEES SHALL BE LIMITED TO \$2,000,000. THIS SHALL BE CALCULATED AS 15% OF TOTAL DEVELOPMENT COSTS, LESS: DEVELOPER FEE, DEVELOPER OVERHEAD, AND DEVELOPER CONSULTANT FEES.**

**IF AN EXISTING PROJECT IS SPLIT INTO TWO OR MORE PROJECTS, THE AGGREGATE DEVELOPER FEE FOR ALL PROJECTS CANNOT EXCEED \$2,000,000.**

**M. Limited Dividend Calculations:** Return on equity investment limited to the amount approved by HUD in the decoupling approval, subject to the Authority's confirmation the amount does not exceed its statutory limitations. **RETURNS** will be non-

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cumulative. **SELLER WAIVER OF CURRENT YEAR AND ACCUMULATED, DEFERRED LDS WILL BE REQUIRED.**

- N. Construction Contract Allowances:** Line item allowances within the construction contract are 6% for builder profit, 2% for builder overhead, and 6% for general requirements of the total construction contract amount.

**IV. Other Requirements:**

- A. Application processing: A 6-MONTH PROCESSING TIME FROM APPLICATION TO CLOSING IS ANTICIPATED, INCLUDING THE COMPLETION OF A PRESERVATION CAPITAL NEEDS ASSESSMENT.** (subject to necessary HUD approvals and timely submission of required documents) **EXPEDITED PROCESSING OPTION IS AVAILABLE UPON REQUEST.**
- ~~1. For current MSHDA developments: 6 month processing time from application to closing is anticipated, including the completion of a Preservation Capital Needs Assessment.~~
- ~~2. For non-MSHDA developments: A preliminary application is required of all non-MSHDA proposals. MSHDA will conduct site visit and determine acceptability of proposal within 45 days of preliminary application. Closing within 6 months of receipt of complete application.~~
- B. HUD Approval:** HUD approval of the transaction will be a condition of loan closing. The approvals from HUD must be consistent with the program and development proforma stated in the Authority's mortgage loan commitment staff report.
- C. HAP Extensions:** All developments must apply for and accept any available HAP or other HUD subsidy extensions, subject to MSHDA approval. Non-MSHDA developments must receive a 20-year Section 8 contract renewal as part of the application process.
- D. No Relocation:** Involuntary permanent relocation of existing residents is not permitted.
- E. Contract Administration:** MSHDA administration of the enhanced vouchers will be sought.
- F. Tax Abatement:** If underwriting requires tax abatement, ~~either the developer must obtain satisfactory tax abatement or provide documentation from the local unit of government that the existing tax abatement will continue for the 35-year term~~ **THE AUTHORITY MUST BE SATISFIED THAT THE TAX ABATEMENT SHALL BE IN EFFECT FOR THE TERM OF THE MSHDA MORTGAGE LOAN. ESCALATING PILOTS WILL BE UNDERWRITTEN AT THE MAXIMUM RATE, RATHER THAN THE INITIAL RATE.**
- G. Transition Plan:** The new owner and its management agent must develop a transition plan detailing the efforts the agent will use to train staff and market units ~~at significantly higher rents,~~ **AS NON-SUBSIDIZED UNITS, OR AT HIGHER RENTS, TO ASSURE ON-SITE STAFF ARE TRAINED IN MSHDA REPORTING AND**

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**COMPLIANCE REQUIREMENTS**, and to maintain existing residents through the construction and transition period.

- H. Reserve Ownership:** Applicants must affirm MSHDA's ownership of excess reserves.
- I. Fees:** Application fee of \$500 for currently MSHDA-financed developments and \$1000 for non-MSHDA. A 2% Commitment fee, tax credit and compliance fees will apply. Preservation Capital Needs Assessment fee based on size of development.
- J. Syndication and other Equity Pay-In:** ~~A consultation between the mortgagor, MSHDA, and the syndicator is recommended to determine an~~ **MSHDA'S ASSIGNED HDO WILL FACILITATE A CONSULTATION PROCESS WITH THE SPONSOR, APPROPRIATE MSHDA STAFF, AND THE SPONSOR'S SYNDICATOR IN ORDER TO ARRIVE AT A MUTUALLY** acceptable and detailed schedule setting forth **BOTH** the timing of the anticipated payment of all costs necessary to complete the development, and achieve sustaining occupancy. ~~This schedule must further compare the "uses" of funds over time with the proposed availability of "sources" of funds. It is expected that 75% of all general project costs be paid in by 50% construction completion and 100% by 75% completion.~~

~~Conditions to any non-MSHDA source of funds will be reviewed and may be rejected if those conditions jeopardize the availability of the funding when it is needed. With the exception of payments of developer fees directly from the equity partner to the mortgagor, all non-MSHDA sources of funding must be deposited with and disbursed through MSHDA.~~

~~At its discretion, MSHDA may provide construction financing to bridge equity pay-ins.~~ **ALONG WITH THE SOURCES OF SUCH PAYMENTS. THIS FACILITATION SHALL TAKE PLACE SHORTLY AFTER THE MSHDA BOARD APPROVES THE FEASIBILITY/COMMITMENT REPORT AND WILL BE SPECIAL CONDITION OF THAT REPORT. A MORTGAGE LOAN CLOSING WILL NOT BE SCHEDULED UNTIL THERE IS AN AGREEMENT AMONG THE PARTIES AS TO THE SCHEDULE OF FUNDING.**

**IT IS EXPECTED THAT MSHDA SHALL RECEIVE SUFFICIENT EQUITY AND OTHER CONTRIBUTIONS TO ASSURE THAT WHEN COMBINED WITH MORTGAGE LOAN PROCEEDS, THERE WILL BE SUFFICIENT FUNDS TO ASSURE PAYMENT OF DEVELOPMENT COSTS DURING CONSTRUCTION. MSHDA WILL WORK WITH BOTH THE SPONSOR AND THE SYNDICATOR ON TIMING ISSUES AND WORK TO IDENTIFY MUTUALLY AGREEABLE SOLUTIONS TO FILL FUNDING GAPS AS APPROPRIATE TO THE PARTICULAR SITUATION. HOWEVER, IN NO EVENT WILL MSHDA AGREE TO A CONDITION(S) THAT IT DETERMINES JEOPARDIZE THE AVAILABILITY OF FUNDING WHEN IT IS NEEDED. WITH THE EXCEPTION OF PAYMENTS OF DEVELOPER FEES DIRECTLY FROM THE EQUITY PARTNER TO THE MORTGAGOR, ALL NON-MSHDA SOURCES OF FUNDS MUST BE DEPOSITED WITH AND DISBURSED THROUGH MSHDA.**

- K. EQUAL OPPORTUNITY: MSHDA REQUIRES A PLAN FROM:**

**Section 236 Preservation Parameters**  
(Tax-Exempt)

- THE PRIME CONTRACTOR IS TO PROVIDE EQUAL OPPORTUNITY PLAN FOR WORKFORCE TRADE UTILIZATIONS AND FOR BUSINESS CONTRACTING ENTERPRISES TO SUBCONTRACTORS AND MATERIAL SUPPLIERS; AND
- THE MANAGEMENT AGENT TO AGGRESSIVELY AND AFFIRMATIVELY MARKET THE HOUSING TO MINORITY GROUPS.

**L. COST CERTIFICATION:** MSHDA WILL RELY ON THE LIHTC COST CERTIFICATION AND WILL NOT REQUIRE A SEPARATE COST CERTIFICATION FOR PRESERVATION TRANSACTIONS.

**M. LOAN MANAGEMENT:** MSHDA'S OFFICE OF ASSET MANAGEMENT MONITORS A DEVELOPMENT'S OPERATIONS FOR COMPLIANCE WITH CONTROLLING LOAN DOCUMENTS AND ITS FINANCIAL AND PHYSICAL CONDITION THROUGH A VARIETY OF REPORTING SYSTEMS. THESE SYSTEMS INCLUDE ELECTRONIC SUBMISSION OF MONTHLY INCOME AND EXPENSE STATEMENTS, REVIEW AND APPROVAL OF ANNUAL BUDGETS AND AUDITS, APPROVAL OF THE USE OF RESERVES, AND OTHER REQUIRED REPORTS. A DEVELOPMENT'S COMPLIANCE WITH RESIDENT INCOME ELIGIBILITY, RENTAL RESTRICTIONS, AND PHYSICAL INSPECTIONS IS MONITORED BY MSHDA'S COMPLIANCE DIVISION.

**N. Unique Circumstances:** Developers are encouraged to discuss unique preservation opportunities not within the above described parameters with MSHDA Multifamily Development staff to determine the potential for waiver of certain of these parameters.

**O. INACTIVE APPLICATIONS:** A HOUSING DEVELOPMENT OFFICER, IN CONSULTATION WITH THE MSHDA DEVELOPMENT MANAGER AND DIRECTOR OF MULTIFAMILY DEVELOPMENT WILL DETERMINE AN APPLICATION TO BE INACTIVE AND PLACE IT IN THE "INACTIVE" PIPELINE IF THE SPONSOR IS UNABLE TO SUBMIT MATERIALS REQUIRED FOR CONTINUED PROCESSING IN A TIMELY MANNER (GENERALLY, 30 DAYS FROM THE REQUEST FOR SUCH MATERIALS). ADDITIONALLY, SPONSORS MAY REQUEST THAT AN APPLICATION BE MADE "INACTIVE" FOR ANY REASON.

WHEN AN APPLICATION IS PLACED IN "INACTIVE" STATUS, IT LOSES ITS INTEREST RATE LOCK. THE INTEREST RATE FOR AN "INACTIVE" APPLICATION WILL BE DETERMINED UPON RE-ACTIVATION. AN "INACTIVE" STATUS DOES, HOWEVER, ACT AS A PLACEHOLDER FOR THE MARKET. AS LONG AS AN APPLICATION IS IN THE "INACTIVE" PIPELINE, NO NEW APPLICATION FOR THE SAME DEVELOPMENT TYPE WILL BE CONSIDERED FOR THIS MARKET, WITHOUT THE SPONSOR OF THE INACTIVE APPLICATION FIRST HAVING A CHANCE TO RESOLVE THE INACTIVE STATUS.

PRESERVATION FUNDS WILL NOT BE HELD FOR APPLICATIONS IN THE INACTIVE PIPELINE.

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UPON RECEIPT OF ANOTHER, NEW APPLICATION IN THE SAME MARKET AREA, MSHDA WILL IMMEDIATELY NOTIFY BOTH THE NEW APPLICANT AND THE SPONSORS OF ANY INACTIVE APPLICATION(S) IN THAT MARKET AREA. SPONSORS WITH AN APPLICATION IN THE "INACTIVE" PIPELINE MUST:

- NOTIFY MSHDA IN WRITING THAT THEY WISH TO ACTIVATE THE APPLICATION WITHIN FOURTEEN DAYS OF THE DATE OF THE NOTICE, AND
- SUBMIT ALL OUTSTANDING DOCUMENTATION REQUIRED FOR PROCESSING WITHIN THIRTY (30) DAYS OF THE DATE OF NOTICE.

IF THE SPONSOR SATISFIES BOTH OF THESE CONDITIONS, THE APPLICATION WILL BE REACTIVATED. IF THE SPONSOR FAILS TO SATISFY EITHER OF THE CONDITIONS ABOVE, THE "INACTIVE" APPLICATION BECOMES VOID AND THE NEW APPLICATION WILL BE REVIEWED. THE SPONSOR OF THE NEW APPLICATION WILL BE NOTIFIED OF THE HOLD ON THEIR APPLICATION, PENDING DISPOSITION OF THE INACTIVE APPLICATION AND MAY CHOOSE TO BE PLACED IN THE INACTIVE PIPELINE UNTIL THE COMPETING APPLICATION HAS RECEIVED MORTGAGE LOAN COMMITMENT.

THE MAXIMUM AMOUNT OF TIME ANY APPLICATION WILL BE CONSIDERED "INACTIVE" IS SIX (6) MONTHS FROM THE DATE IT BECOMES INACTIVE. AFTER SIX (6) MONTHS, THE APPLICATION WILL BE REMOVED AND CONSIDERED VOID.

TO ACTIVATE AN APPLICATION PREVIOUSLY CONSIDERED "INACTIVE", THE SPONSOR MUST SUBMIT WRITTEN INTENT TO MSHDA. ALL REQUIRED DOCUMENTATION MUST BE SUBMITTED WITHIN 30 DAYS OF THE DATE OF THIS LETTER OF INTENT OR THE APPLICATION IS VOID. NO ADDITIONAL FEES ARE REQUIRED TO ACTIVATE AN APPLICATION; HOWEVER, MSHDA MAY, AT ITS SOLE DISCRETION, DECLINE TO ACTIVATE ANY APPLICATION AND/OR MAY REMOVE ANY APPLICATION FROM ITS PIPELINE.

**V. For MSHDA-financed Loans only:**

- A. **REPAYMENT OF EXISTING INDEBTEDNESS:** ALL REPAYABLE SUBSIDY LOANS, DEFERRED INTEREST, HOME, PRESERVATION FUND, OR OTHER SECONDARY FINANCING, SUCH AS SMALL SIZE, SECURITY, AND AMENITY LOANS ARE TO BE REPAYED UPON REFINANCING. ASSUMPTION OF THESE LOANS IS NOT ANTICIPATED, NOR IS FURTHER SECONDARY FINANCING AVAILABLE TO ADDRESS THIS INDEBTEDNESS.
- B. **Replacement Reserve Draws:** Replacement reserve draws will not be processed subsequent to a preservation loan application, without notification to MSHDA MULTIFAMILY Development Division.

**Preservation Parameters (non-Section 8 or 236)**  
(Tax-exempt)



April 26, 2006 **September 26, 2007**

MSHDA is offering tax-exempt preservation lending to extend the affordability, viability, and livability of existing rental developments for a minimum of 35 years.

Loans will be provided based on the extent to which the following objectives are met:

1. The rehabilitation addresses physical needs of the property, including those directly related to the enhancement of resident livability and functionality.
2. Significant low-income targeting is achieved.
3. The loan will be a long-term earning asset.
4. The transaction uses the least amount of Preservation Fund loan necessary.
5. The longest possible term of affordability is achieved.

**I. Eligibility and Resource Availability:**

- A. Eligible Developments:** Any Section 202, Rural Development Section 515, **MSHDA-FINANCED** expiring 4% LIHTC **DEVELOPMENT WHOSE COMPLIANCE PERIOD HAS EXPIRED**, or other MSHDA-financed rental development in Michigan is eligible to apply for a new tax-exempt loan from MSHDA.
- B. ELIGIBLE BORROWERS:** A SPONSOR/DEVELOPER MAY BE A NONPROFIT, AN INDIVIDUAL, A GROUP OF INDIVIDUALS, A CORPORATE ENTITY, OR SOME COMBINATION. PRIOR TO MORTGAGE LOAN COMMITMENT, A LEGAL ENTITY MUST BE FORMED THAT IS AN "ELIGIBLE BORROWER" UNDER THE AUTHORITY'S ACT.
- B. ~~Bond Cap:~~** ~~\$100 million of tax-exempt bond cap will be allocated, with no more than \$50 million available for non-MSHDA developments.~~
- C. Minimum Rehab:** At least ~~\$5,000~~ **\$10,000** in rehab/unit and 15% of acquisition cost required, with emphasis on improvements benefiting residents (Preservation Capital Needs Assessment required).
- D. Preservation Fund Loans:** In the event the Authority determines the transaction will not adequately address unmet physical needs, a Preservation Fund (PF) loan may be available at 3% simple interest. Monthly payments based on a 50-year amortization will be due until the end of the first mortgage. At the end of the first mortgage term, the outstanding balance of the PF loan, including accrued interest, will become the new first mortgage and begin amortization with monthly mortgage payments equal to the payments under the original first mortgage **WITH THE BALANCE OF PRINCIPAL AND ALL INTEREST DUE AT THE EARLIER OF SALE OF THE DEVELOPMENT, REFINANCING OF THE MORTGAGE LOAN OR 50 YEARS AFTER CLOSING.**

If more than 40% of the allowable developer fee is deferred, the developer has two PF loan options:

**Preservation Parameters (non-Section 8 or 236)**  
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1. Interest will accrue, but PF loan amortization may be deferred until the deferred developer fee has been paid, but no later than the end of the 12<sup>th</sup> year. Beginning at **THE EARLIER OF THE YEAR IN WHICH THE DEVELOPER FEE HAS BEEN PAID IN FULL OR IN the 13<sup>th</sup> year FROM THE DATE OF INITIAL DISBURSEMENT OF THE MORTGAGE LOAN**, annual payments will be ~~made from available cash flow~~ **PAYABLE FROM TWENTY-FIVE PERCENT OF ANY SURPLUS CASH AVAILABLE FOR DISTRIBUTION TO THE OWNER**, applied first to accrued interest, then to current interest and principal **WITH THE BALANCE OF PRINCIPAL AND ALL INTEREST DUE AT THE EARLIER OF SALE OF THE DEVELOPMENT, REFINANCING OF THE MORTGAGE LOAN OR 50 YEARS AFTER CLOSING.**
2. If the developer agrees to contribute at least 3% of the allowable developer fee to the Resident Services Fund, MSHDA will allow a Preservation Fund loan sufficient to reduce the deferred developer fee to 30%. Interest will accrue, but PF loan amortization may be deferred until the deferred developer fee has been paid, but no later than the end of the 12<sup>th</sup> year. Beginning at **THE EARLIER OF THE YEAR IN WHICH THE DEVELOPER FEE HAS BEEN PAID IN FULL OR IN the 13<sup>th</sup> year FROM THE DATE OF INITIAL DISBURSEMENT OF THE MORTGAGE LOAN**, annual payments will be ~~made from available cash flow~~ **PAYABLE FROM TWENTY-FIVE PERCENT OF ANY SURPLUS CASH AVAILABLE FOR DISTRIBUTION TO THE OWNER**, applied first to accrued interest, then to current interest and principal **WITH THE BALANCE OF PRINCIPAL AND ALL INTEREST DUE AT THE EARLIER OF SALE OF THE DEVELOPMENT, REFINANCING OF THE MORTGAGE LOAN OR 50 YEARS AFTER CLOSING.**

At the end of the first mortgage term, the outstanding balance of the PF loan, including accrued interest, will become the new first mortgage and begin amortization with monthly mortgage payments equal to the payments under the original first mortgage, **WITH THE BALANCE OF PRINCIPAL AND ALL INTEREST DUE AT THE EARLIER OF SALE OF THE DEVELOPMENT, REFINANCING OF THE MORTGAGE LOAN OR 50 YEARS AFTER CLOSING.**

- E. **Resident Services Fund:** This fund will be administered by a 501c3 non-profit created for this purpose or some other entity, as approved by MSHDA, for the purpose of funding supportive services such as youth development activities, job training and placement, service coordinators in senior housing, child care services, or other necessary and appropriate resident services. Any affordable rental housing development in Michigan is eligible to apply for funding from the RSF.
- F. **Michigan Green Communities Grant:** A grant of \$1,000 per affordable unit, up to a maximum of \$50,000 **PER PROJECT**, is available from MSHDA for rehabilitated developments meeting the Michigan Green Communities criteria. The Enterprise Foundation will match funds and a \$3,000 grant is provided for administrative reporting.
- G. **Tax-Exempt Eligibility:** All proposals must include rehabilitation **EXPENDITURES WITH RESPECT TO EACH BUILDING, WHICH MUST EQUAL OR EXCEED 15% OF THE PORTION OF THE COST OF ACQUIRING SUCH BUILDING (AND**

**Preservation Parameters (non-Section 8 or 236)**  
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**EQUIPMENT)** in an amount that satisfies the 15% test of the Internal Revenue Code for the use of private activity bond cap and the proposed tax exempt financing must equal at least 51% of the total development cost. **PARTICIPATION IN THE HOUSING TAX CREDIT PROGRAM IS REQUIRED AND UNDERWRITING STANDARDS OF THE QUALIFIED ALLOCATION PLAN WILL APPLY.**

**II. Interest rate and term:**

- A. Rate:** ~~The rate will be based on a municipal index and will be updated weekly and posted on MSHDA's Web site. Typically, MSHDA will bear the cost of any risk-sharing insurance, should it be required, within this rate.~~ **THE RATE WILL BE 6.45%, SUBJECT TO CHANGE BASED ON MSHDA'S COST OF BORROWING. CHANGES IN RATE WILL BE POSTED ON MSHDA'S WEB SITE. TYPICALLY, MSHDA WILL BEAR THE COST OF ANY RISK-SHARING INSURANCE, SHOULD IT BE REQUIRED, WITHIN THIS RATE. AT MSHDA'S DISCRETION, INTEREST RATE DEFERRAL TO A LOWER PAY RATE MAY BE CONSIDERED BASED ON FINANCIAL FEASIBILITY. THE TERMS OF REPAYMENT OF DEFERRED INTEREST WILL BE NEGOTIATED ON A CASE BY CASE BASIS.**
- B. Timing:** Rate determined at close of business on date of receipt of complete application. Locked in for maximum 6-month processing time.
- C. ~~Special Rate~~ CONCESSIONS AND INDUCEMENTS:** ~~Up to A 1/2% of the interest rate~~ **REDUCTION** may be deferred **AVAILABLE** if at least 15% of the units will be **ARE** affordable to a targeted special-needs population with services **TO BE** provided in accordance with a MSHDA-approved Addendum III supportive services plan. This ~~deferral~~ **REDUCTION** will be forgiven if an acceptable level of services continues for the term of affordability and the **INTEREST RATE** will be eliminated **RAISED** in the event services are not provided. **INTEREST RATE DEFERRAL MAY BE AVAILABLE IN CERTAIN MSHDA-DESIGNATED COMMUNITIES, SUCH AS CITIES OF PROMISE AND VERY LOW INCOME COUNTIES. IN PROJECTS WHERE AN INTEREST RATE DEFERRAL IS GIVEN, THE DEFERRED INTEREST SHALL BE REPAYED ANNUALLY, USING THE REPAYMENT TERMS NOTED ABOVE FOR THE PRESERVATION FUND LOAN, HOWEVER ALL DEFERRED INTEREST ON THE FIRST MORTGAGE WILL BE DUE AND PAYABLE ON THE MATURITY DATE OF THE FIRST MORTGAGE. NO ANNUAL DEBT SERVICE WILL BE DUE ON THE PRESERVATION FUND LOAN WHILE THE FIRST MORTGAGE IS OUTSTANDING, BUT AT THE END OF THE FIRST MORTGAGE TERM, THE OUTSTANDING BALANCE OF THE PRESERVATION FUND LOAN, INCLUDING ACCRUED INTEREST, WILL BECOME THE NEW FIRST MORTGAGE AND BEGIN AMORTIZATION WITH MONTHLY MORTGAGE PAYMENTS EQUAL TO THE PAYMENTS UNDER THE ORIGINAL FIRST MORTGAGE. WITH THE BALANCE OF PRINCIPAL AND ALL INTEREST DUE AT THE EARLIER OF SALE OF THE DEVELOPMENT, REFINANCING OF THE MORTGAGE LOAN OR 50 YEARS AFTER CLOSING.**
- D. DEBT COVERAGE:** MSHDA REQUIRES A MINIMUM DEBT COVERAGE RATIO OF 1.10, BASED ON THE ASSESSMENT OF RISK ASSOCIATED WITH THE DEVELOPMENT.



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- E. **LOAN INSURANCE Risk-sharing:** MSHDA reserves the right to require the submission of documents necessary to obtain HUD risk-sharing (50/50) **OR FULL FHA insurance. TYPICALLY MSHDA WILL BEAR THE COST OF ANY RISK-SHARING INSURANCE, SHOULD IT BE REQUIRED.** If the mortgagor requests risk-sharing insurance, the premium cost will be borne by the mortgagor.
- F. **Term/Prepayment:** After the 15<sup>th</sup> year MSHDA may, **AT ITS SOLE DISCRETION, allow** prepayment of the mortgage after consultation with the owner regarding the development's physical and financial needs. ~~Factors to be considered include the ability to access additional funds to address capital needs and changing partnership interests.~~ In the event MSHDA permits a prepayment, the mortgagor must pay a 1% prepayment penalty plus any bond call premium, prepayment or swap penalty **AND LOSS OF SPREAD BETWEEN THE LOAN AND BOND RATE USED TO FINANCE THE LOAN FROM THE DATE OF THE PREPAYMENT THROUGH THE END OF THE 20<sup>TH</sup> YEAR OF AMORTIZATION.**
- A MORTGAGOR INTERESTED IN PREPAYING A MORTGAGE WILL BE RESPONSIBLE FOR PAYING ANY COSTS ASSOCIATED WITH TERMINATION OF AN EQUAL AMOUNT OF AN INTEREST RATE SWAP AGREEMENT (SWAP). ONCE THE MORTGAGOR HAS BEEN APPROVED FOR THE EARLY PREPAYMENT OF THE UNDERLYING LOAN, THEY WILL SIGN AN AGREEMENT WITH MSHDA STATING THEY ARE RESPONSIBLE FOR THE COST OF TERMINATING THE SWAP. THE MORTGAGOR CAN THEN CHOOSE THE TIMING OF THE TERMINATION AND PARTICIPATE IN THE TRANSACTION WITH THE SWAP COUNTERPARTY (LEHMAN, MERRILL LYNCH OR GOLDMAN SACHS). THE SWAP COUNTERPARTY WILL QUOTE THE COST OF TERMINATING THE SWAP AND THE MORTGAGOR WILL HAVE THE ABILITY TO EXECUTE THE TRANSACTION OR CANCEL AT THEIR SOLE DISCRETION. IF THE MORTGAGOR CHOOSES NOT TO TERMINATE THE SWAP, THEY WILL FORFEIT THE RIGHT TO PREPAY THE MORTGAGE.
- G. **Affordability Restrictions:** ~~Affordability restrictions must extend~~ **IMPOSED AT THE CLOSING OF THE MORTGAGE LOAN MUST REMAIN IN PLACE for 90 YEARS.** ~~the originally scheduled term of the MSHDA mortgage(s).~~
- H. **OTHER: ADDITIONAL PROGRAM REQUIREMENTS AS DEFINED IN THE MICHIGAN QUALIFIED ALLOCATION PLAN.**

**III. Underwriting Standards:**

- A. **Appraisal:** **AN APPRAISAL IDENTIFYING THE "As-is" ENCUMBERED AND UNENCUMBERED VALUES** ~~appraisal and acceptable rent comparability analysis IS required. Information regarding current tenancy of the development, including gross annual income, rent currently paid, age, length of residency, and other demographics will also be required, as will vacancy rates and turnover data for the past 3 years. A rent comp study may be waived, if rent increases are deemed insignificant by MSHDA. See MSHDA's Market Guidelines specific to the Preservation Programs.~~
- B. **MARKET DETERMINATION: THE MARKET FOR THE DEVELOPMENT AND THE PROPOSED RENTS MUST BE SUPPORTED BY A PROFESSIONAL, INDEPENDENT MARKET ANALYSIS AS DETERMINED BY MSHDA, AND MUST**

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BE SUFFICIENT TO MEET DEBT SERVICE AND NORMAL OPERATING EXPENSES. MSHDA WILL CONTRACT WITH A MARKET ANALYSIS FIRM TO CONDUCT THIS STUDY, WITH THE COST BORNE BY THE MORTGAGOR. THE IMPACT OF THE PROPOSED HOUSING ON OTHER MSHDA DEVELOPMENTS IN THE AREA AND THE DIFFERENTIAL BETWEEN MARKET RENT UNITS AND THE PROPOSED HOUSING WILL BE FACTORS IN ACCEPTING PROPOSALS FOR FINANCING.

- C. **Part "A" Loan:** Part "A" is the debt that can be supported by the rental income of the property, less vacancy loss, operating expenses, reserves, and escrows. Part "A" of the first mortgage will be underwritten at a fixed rate over a fully amortizing 35-year term at a minimum of a 1.10 debt coverage ratio.
- D. **Part "B" Loan:** Part "B" is the debt that can be supported by the continuing stream of income from HAP or other project-based rental assistance, if available. Part "B" of the first mortgage will be underwritten at a fixed rate over a fully amortizing term not to exceed the term remaining on the rental assistance contract at a 1.0 debt coverage ratio.
- E. **Income Restrictions:** At a minimum the proposal must provide for **THE LESSER OF** income and rent restrictions on 40% of the units, targeting those units to households with incomes at or below 60% of area median income **OR ANY FEDERAL PROGRAM LIMITS**. Except for developments specifically designated for elderly occupancy, the applicable percentage of each unit type must be targeted.
- F. **Rent Restrictions:** At a minimum, rent levels on 40% of the units will be targeted to be affordable to 60% of AMI or the level of income currently served by the development. Except for developments specifically designated for elderly occupancy, the applicable percentage of each unit type must be restricted. Rent restrictions apply for the term of affordability.
- G. **Replacement Reserve:** The annual deposit to the Replacement Reserve on the first full year of the new loan will not be less than \$300 per unit. ~~The required minimum initial deposit in the replacement reserve account will be~~ **FURTHERMORE, AT THE MORTGAGE LOAN CLOSING THE SPONSOR MUST DEPOSIT** the greater of \$700 per unit or the amount determined necessary to satisfy the requirements of the Preservation Capital Needs Assessment **OVER A 20 YEAR PERIOD**.
- H. **OPERATING ASSURANCE RESERVE:** **AT THE TIME OF INITIAL DISBURSEMENT OF MORTGAGE LOAN PROCEEDS, THE MORTGAGOR MUST ESTABLISH AN OPERATING ASSURANCE RESERVE (OAR) EQUAL TO AT LEAST FOUR MONTHS' ESTIMATED OPERATING EXPENSES, PAYMENTS REQUIRED UNDER THE MORTGAGE NOTE, DEPOSITS TO RESERVES AND OTHER ANTICIPATED DEVELOPMENT EXPENSES. THE OAR MAY BE FUNDED WITH CASH OR UP TO 50% WITH AN IRREVOCABLE, UNCONDITIONAL LETTER OF CREDIT ACCEPTABLE TO THE AUTHORITY.**

THE OAR AND ANY INTEREST IT ACCRUES WILL BE HELD BY THE AUTHORITY FOR A MINIMUM OF 12 FULL YEARS OF OPERATION OF THE DEVELOPMENT AND MAY BE USED IN ACCORDANCE WITH THE

**Preservation Parameters (non-Section 8 or 236)**  
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**AUTHORITY'S WRITTEN POLICY ON THE USE OF THE OAR, AS AMENDED FROM TIME TO TIME.**

**IN THE 6<sup>TH</sup> YEAR OF OPERATION, AFTER THE COMPLETION OF PRESERVATION WORK, THE OAR WILL BE USED TO FULLY FUND THE REPLACEMENT RESERVE NEEDS IDENTIFIED BY AN UPDATED INDEPENDENT COMPREHENSIVE NEEDS ANALYSIS AND TO FULLY FUND ANY OTHER ESCROW ACCOUNTS. IF THE AMOUNT REQUIRED TO FUND ESCROWS IS REPRESENTED BY A LETTER OF CREDIT, THE LETTER OF CREDIT WILL BE DRAWN UPON. FOLLOWING THE 6<sup>TH</sup> FULL YEAR OF OPERATION, THE MORTGAGOR MAY REQUEST APPROVAL OF UP TO A 50% REDUCTION/RELEASE IN THE REMAINING OAR FUNDS THAT ARE NOT NEEDED FOR FUNDING OF THE REPLACEMENT RESERVE OR OTHER ESCROWS. THE RELEASE WILL BE DEPOSITED INTO THE DEVELOPMENT'S OPERATING ACCOUNT AND MAY BE AVAILABLE TO PAY OPERATING EXPENSES OR DEFERRED DEVELOPER FEES. THE DIRECTOR OF ASSET MANAGEMENT MAY APPROVE A RELEASE AND/OR REDUCTION, BASED ON A REVIEW OF THE DEVELOPMENT'S OPERATIONS.**

**IN THE 12<sup>TH</sup> YEAR OF OPERATION, AFTER THE COMPLETION OF PRESERVATION WORK, ANY REMAINING OAR WILL BE USED TO FULLY FUND THE REPLACEMENT RESERVE NEEDS IDENTIFIED BY AN UPDATED INDEPENDENT COMPREHENSIVE NEEDS ANALYSIS AND TO FULLY FUND ANY OTHER ESCROW ACCOUNTS. IF THE AMOUNT REQUIRED TO FUND ESCROWS IS REPRESENTED BY A LETTER OF CREDIT, THE LETTER OF CREDIT WILL BE DRAWN UPON. FOLLOWING THE 12<sup>TH</sup> FULL YEAR OF OPERATION, THE MORTGAGOR MAY REQUEST APPROVAL FOR THE REDUCTION/RELEASE OF THE REMAINING OAR FUNDS THAT ARE NOT NEEDED FOR FUNDING OF THE REPLACEMENT RESERVE OR OTHER ESCROWS. THE RELEASE WILL BE DEPOSITED INTO THE DEVELOPMENT'S OPERATING ACCOUNT, WHICH MAY BE USED FOR PAYMENT OF DEFERRED DEVELOPER FEE. THE DIRECTOR OF ASSET MANAGEMENT MAY APPROVE A RELEASE AND/OR REDUCTION, BASED ON A REVIEW OF THE DEVELOPMENT'S OPERATIONS.**

- I. OPERATING DEFICIT RESERVE: AN OPERATING DEFICIT RESERVE (ODR) MAY BE REQUIRED BASED ON A CASH FLOW ANALYSIS OVER A 20-YEAR PERIOD. WHEN REQUIRED, THE MORTGAGOR MUST ENTER INTO AN AGREEMENT AND ESTABLISH AN ODR WITH THE AUTHORITY WITH AN INITIAL DEPOSIT AT CLOSING. THE ODR SHALL BE FUNDED IN CASH, HELD AND CONTROLLED BY THE AUTHORITY AND WILL BE INVESTED AND REINVESTED BY THE AUTHORITY'S OFFICE OF FINANCE. INTEREST EARNED ON THIS RESERVE, IF ANY, SHALL BECOME PART OF THIS RESERVE AND SHALL BE TREATED AND DISBURSED IN THE SAME WAY.**

**THE AMOUNT DISBURSED ANNUALLY FROM THE ODR WILL BE THE ANNUAL PROJECTED BUDGET DEFICIT AS SHOWN ON CASH FLOW ANALYSIS ESTABLISHING THE ODR. EACH MONTH THE AUTHORITY WILL WITHDRAW 1/12TH OF THE PROJECTED ANNUAL DEFICIT FOR THAT SPECIFIC YEAR FROM THE ODR, AND WILL APPLY IT AGAINST THE MORTGAGE PAYMENT DUE THAT MONTH. THE ANNUAL DISBURSEMENT**

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WILL REMAIN UNCHANGED UNTIL THE MORTGAGOR REQUESTS AN INCREASE, WHICH CAN BE MADE UP TO THE AMOUNT ON ATTACHMENT A FOR THAT YEAR. THIS WILL CONTINUE EACH YEAR UNTIL THE ODR HAS BEEN DEPLETED OR THE AUTHORITY'S MORTGAGE LOAN(S) ARE PAID IN FULL.

IN THE EVENT THAT THE DEVELOPMENT EXPERIENCES AN OPERATING DEFICIT THAT IS GREATER THAN THAT PROJECTED, THE MORTGAGOR MAY REQUEST THAT THE AUTHORITY INCREASE THE AMOUNT DRAWN FROM THE ODR. THE DIRECTOR OF ASSET MANAGEMENT MUST APPROVE THE REQUEST. HOWEVER, THE MORTGAGOR SHALL NOT BE ENTITLED TO RECEIVE A LIMITED DIVIDEND PAYMENT FOR ANY YEAR IN WHICH THE AMOUNT DRAWN FROM THE ODR IS GREATER THAN THE AMOUNT IDENTIFIED IN ATTACHMENT A FOR THAT YEAR, UNTIL THE BALANCE OF THE ODR IS RESTORED TO THE APPROPRIATE LEVEL.

AT THE EARLIER OF THE TIME WHEN THE ODR HAS BEEN DEPLETED OR DURING THE 20<sup>TH</sup> YEAR AFTER MORTGAGE LOAN CLOSING, THE AUTHORITY WILL DETERMINE THE ANNUAL PROJECTED OPERATING DEFICITS AND THE TOTAL AMOUNT SUFFICIENT TO FUND PROJECTED OPERATING DEFICITS THROUGH THE REMAINING TERM OF THE AUTHORITY'S MORTGAGE LOAN(S). THE MORTGAGOR MUST DEPOSIT THIS AMOUNT IN CASH INTO THE ODR, TO BE HELD BY THE AUTHORITY AND DISBURSED AS NOTED ABOVE. FAILURE TO REPLENISH THE ODR, WHEN REQUIRED BY THE AUTHORITY, SHALL CONSTITUTE A DEFAULT ON THE MORTGAGE LOAN. IN THE EVENT THAT THE AUTHORITY'S MORTGAGE LOAN IS ACCELERATED AFTER A DEFAULT IN THE TERMS OF THE MORTGAGE, NOTES OR REGULATORY AGREEMENT, THE AUTHORITY, IN ITS SOLE DISCRETION, MAY, BUT IS NOT REQUIRED TO, APPLY ANY FUNDS ON DEPOSIT IN THE ODR, TO THE AMOUNT DUE ON THE MORTGAGE LOANS AS ACCELERATED.

AT SUCH TIME AS THE AUTHORITY'S MORTGAGE LOAN(S) AND ALL OTHER FINANCIAL OBLIGATIONS TO THE AUTHORITY ARE PAID IN FULL, THE REMAINING BALANCE OF THE ODR, INCLUDING ALL INTEREST THAT HAS ACCUMULATED, WILL BE DISBURSED TO THE MORTGAGOR.

- J. **OPERATING Reserve Requirements:** One month's gross rent potential will be required to be deposited to the operating account of the development at closing, ~~2) a capitalized replacement reserve, if required by the Preservation Capital Needs Assessment, and 3) possible capitalized operating deficit escrow based on a cash flow analysis, 4) a remarketing reserve equal to one year of principal and interest payments of the "Part A" mortgage may be required. Funds may be withdrawn to cover vacancy loss greater than 5%, and/or for marketing expenses, 5) an operating assurance reserve equal to four months' operating expenses may be required.~~
- K. **Vacancy Loss:** Vacancy loss will typically be budgeted at 5% of the gross rental potential. In certain markets, a higher vacancy loss may be required and preservation proposals with project-based subsidies may be underwritten at 3%.

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- L. Developer Fee Limitations:** ~~The maximum Developer Fee allowable will be calculated as a percentage of the acquisition cost plus a percentage of the "Fee-based Development Costs" (defined as total development costs, less acquisition, capitalized operating assurance and deficit reserves, developer's fee, and costs attributable to syndication). The Developer Fee is calculated as follows:~~

- ~~• 10% of project acquisition cost; plus~~
- ~~• 15% of Fee-based Development Costs~~
- ~~• Not to exceed the limits defined in Michigan's Qualified Allocation Plan~~

~~Developers contributing at least 2.5% of their allowable developer fee associated with acquisition costs to the Resident Services Fund will be allowed 15% of both acquisition and fee-based development costs as defined above.~~

**FOR ACQUISITION/REHABILITATION OR PRESERVATION PROJECTS OF 49 UNITS OR FEWER, THE COMBINED TOTAL OF THE DEVELOPER FEE, DEVELOPER OVERHEAD, AND ANY CONSULTANT FEES WILL BE LIMITED TO \$2,000,000. THIS SHALL BE CALCULATED AS 20% OF THE TOTAL DEVELOPMENT COST, LESS: DEVELOPER FEE, DEVELOPER OVERHEAD, DEVELOPER CONSULTANT FEE, AND CERTAIN PROJECT RESERVES. FOR PROJECTS OF 50 UNITS OR MORE, THE COMBINED TOTAL OF THE DEVELOPER FEE, DEVELOPER OVERHEAD, AND ANY CONSULTANT FEE SHALL BE LIMITED TO \$2,000,000. THIS SHALL BE CALCULATED AS 10% OF TOTAL ACQUISITION COST OF LAND AND BUILDING(S), AND 15% OF THE TOTAL REHABILITATION COST, LESS: DEVELOPER FEE, DEVELOPER OVERHEAD, DEVELOPER CONSULTANT FEE, AND CERTAIN PROJECT RESERVES.**

**DEVELOPERS CONTRIBUTING AT LEAST 2.5% OF THEIR ALLOWABLE DEVELOPER FEE TO THE RESIDENT SERVICES FUND WILL BE ALLOWED 15% OF BOTH ACQUISITION AND REHAB COSTS AS DEFINED ABOVE.**

**FOR NEW CONSTRUCTION PROJECTS OF 49 UNITS OR FEWER, THE COMBINED TOTAL OF THE DEVELOPER FEE, DEVELOPER OVERHEAD, AND ANY CONSULTANT FEES SHALL BE LIMITED TO \$2,000,000. THIS SHALL BE CALCULATED AS 20% OF TOTAL DEVELOPMENT COSTS, LESS: DEVELOPER FEE, DEVELOPER OVERHEAD, AND DEVELOPER CONSULTANT FEES. FOR NEW CONSTRUCTION PROJECTS OF 50 UNITS OR MORE, THE COMBINED TOTAL OF THE DEVELOPER FEE, DEVELOPER OVERHEAD, AND ANY CONSULTANT FEES SHALL BE LIMITED TO \$2,000,000. THIS SHALL BE CALCULATED AS 15% OF TOTAL DEVELOPMENT COSTS, LESS: DEVELOPER FEE, DEVELOPER OVERHEAD, AND DEVELOPER CONSULTANT FEES.**

**IF AN EXISTING PROJECT IS SPLIT INTO TWO OR MORE PROJECTS, THE AGGREGATE DEVELOPER FEE FOR ALL PROJECTS CANNOT EXCEED \$2,000,000.**

- M. Limited Dividend Calculations:** ~~Return on equity investment limited to THE LESSER OF 12% OR the amount approved by HUD OR RD, or MSHDA, subject to the Authority's confirmation the amount does not exceed its statutory limitations.~~ **DEVELOPMENTS INITIALLY FINANCED BY MSHDA, THE EQUITY UPON WHICH AN LD IS BASED WILL BE THE SUM OF THE ORIGINAL EQUITY PLUS THE TOTAL PRINCIPAL PAYMENTS MADE ON THE ORIGINAL LOAN BY THE ORIGINAL BORROWER PRIOR TO ANY REPAYMENT OF THE ORIGINAL**

**Preservation Parameters (non-Section 8 or 236)**  
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LOAN. RETURNS WILL BE NON-CUMULATIVE AND SELLER WAIVER OF ACCUMULATED AND CURRENT YEAR DEFERRED LD FEES WILL BE REQUIRED. FOR DEVELOPMENTS NOT INITIALLY FINANCED BY MSHDA, THE EQUITY UPON WHICH AN LD IS BASED WILL BE 12% OF THE EQUITY OF THE NEW TRANSACTION.

FOR DEVELOPMENTS SUBJECT TO HUD OR RD REGULATIONS, THE EQUITY UPON WHICH AN LD IS BASED WILL BE THE ORIGINAL EQUITY UNLESS HUD APPROVES A HIGHER AMOUNT.

RETURNS WILL BE NON-CUMULATIVE AND SELLER WAIVER OF ACCUMULATED AND CURRENT YEAR DEFERRED LD FEES WILL BE REQUIRED.

- N. **CONSTRUCTION CONTRACT ALLOWANCES:** LINE ITEM ALLOWANCES WITHIN THE CONSTRUCTION CONTRACT IS 6% FOR BUILDER PROFIT, 2% FOR BUILDER OVERHEAD, AND 6% FOR GENERAL REQUIREMENTS OF THE TOTAL CONSTRUCTION CONTRACT AMOUNT.

**IV. Other Requirements:**

- A. **Application processing:** A 6-MONTH PROCESSING TIME FROM APPLICATION TO CLOSING IS ANTICIPATED, INCLUDING THE COMPLETION OF A PRESERVATION CAPITAL NEEDS ASSESSMENT (subject to timely submission of required documents). EXPEDITED PROCESSING OPTION IS AVAILABLE UPON REQUEST:
- ~~1. For current MSHDA developments:~~ 6-month processing time from application to closing is anticipated, including the completion of a preservation comprehensive needs assessment.
  - ~~2. For non-MSHDA developments:~~ MSHDA will conduct a site visit and determine acceptability of the proposal within 30 days of application. Closing within 6 months of receipt of complete application
- B. **HUD or Rural Development Approvals:** HUD or Rural Development approval of the transaction will be a condition of loan closing. The approval from HUD or Rural Development must be consistent with the program and development proforma stated in the Authority's mortgage loan commitment staff report.
- C. **Rental Assistance Extensions:** All developments must apply for and accept any available HAP or other rental assistance extensions, subject to MSHDA approval.
- D. **No Relocation:** Involuntary permanent relocation of existing residents is not permitted.
- E. **Contract Administration:** MSHDA contract administration of any rental assistance or ongoing HUD contract administration will be sought and a Memorandum of Understanding with Rural Development will be necessary to coordinate loan oversight requirements.

## Preservation Parameters (non-Section 8 or 236)

(Tax-exempt)

- F. Tax Abatement:** ~~If underwriting requires tax abatement, either the developer must obtain satisfactory tax abatement or provide documentation from the local unit of government that the existing tax abatement will continue~~ **THE AUTHORITY MUST BE SATISFIED THE TAX ABATEMENT SHALL BE IN EFFECT FOR THE** for the 35-year term. **ESCALATING PILOTS WILL BE UNDERWRITTEN AT THE MAXIMUM RATE, RATHER THAN THE INITIAL RATE.**
- G. Transition Plan:** The new owner and its management agent must develop a transition plan detailing the efforts the agent will use to assure on-site staff are trained in MSHDA reporting and compliance **REQUIREMENTS** and to maintain and support existing residents through the construction and rent compliance transition period.
- H. Reserve Ownership:** Applicants must affirm MSHDA's ownership of excess reserves not otherwise controlled by HUD or Rural Development.
- I. Fees:** Application fee of \$500 for currently MSHDA financed developments and \$1000 for non-MSHDA developments. A 2% Commitment fee, tax credit and compliance fees will apply. **THE** Preservation Capital Needs Assessment fee **IS** based on the size of the development.
- J. Syndication and other Equity Pay-In:** ~~A consultation between the mortgagor, MSHDA, and the syndicator is recommended to determine an~~ **MSHDA'S ASSIGNED HDO WILL FACILITATE A CONSULTATION PROCESS WITH THE SPONSOR, APPROPRIATE MSHDA STAFF, AND THE SPONSOR'S SYNDICATOR IN ORDER TO ARRIVE AT A MUTUALLY** acceptable and detailed schedule setting forth **BOTH** the timing of the anticipated payment of all costs necessary to complete the development, and achieve sustaining occupancy. ~~This schedule must further compare the "uses" of funds over time with the proposed availability of "sources" of funds. It is expected that 75% of all general project costs be paid in by 50% construction completion and 100% by 75% completion.~~

~~Conditions to any non-MSHDA source of funds will be reviewed and may be rejected if those conditions jeopardize the availability of the funding when it is needed. With the exception of payments of developer fees directly from the equity partner to the mortgagor, all non-MSHDA sources of funding must be deposited with and disbursed through MSHDA.~~

~~At its discretion, MSHDA may provide construction financing to bridge equity pay-ins.~~ **ALONG WITH THE SOURCES OF SUCH PAYMENTS. THIS FACILITATION SHALL TAKE PLACE SHORTLY AFTER THE MSHDA BOARD APPROVES THE FEASIBILITY/COMMITMENT REPORT AND WILL BE SPECIAL CONDITION OF THAT REPORT. A MORTGAGE LOAN CLOSING WILL NOT BE SCHEDULED UNTIL THERE IS AN AGREEMENT AMONG THE PARTIES AS TO THE SCHEDULE OF FUNDING.**

**IT IS EXPECTED THAT MSHDA SHALL RECEIVE SUFFICIENT EQUITY AND OTHER CONTRIBUTIONS TO ASSURE THAT WHEN COMBINED WITH MORTGAGE LOAN PROCEEDS, THERE WILL BE SUFFICIENT FUNDS TO ASSURE PAYMENT OF DEVELOPMENT COSTS DURING CONSTRUCTION. MSHDA WILL WORK WITH BOTH THE SPONSOR AND THE SYNDICATOR ON**

**Preservation Parameters (non-Section 8 or 236)**  
(Tax-exempt)

**TIMING ISSUES AND WORK TO IDENTIFY MUTUALLY AGREEABLE SOLUTIONS TO FILL FUNDING GAPS AS APPROPRIATE TO THE PARTICULAR SITUATION. HOWEVER, IN NO EVENT WILL MSHDA AGREE TO A CONDITION(S) THAT IT DETERMINES JEOPARDIZE THE AVAILABILITY OF FUNDING WHEN IT IS NEEDED. WITH THE EXCEPTION OF PAYMENTS OF DEVELOPER FEES DIRECTLY FROM THE EQUITY PARTNER TO THE MORTGAGOR, ALL NON-MSHDA SOURCES OF FUNDS MUST BE DEPOSITED WITH AND DISBURSED THROUGH MSHDA.**

**K. EQUAL OPPORTUNITY: MSHDA REQUIRES A PLAN FROM:**

- **THE PRIME CONTRACTOR IS TO PROVIDE EQUAL OPPORTUNITY PLAN FOR WORKFORCE TRADE UTILIZATIONS AND FOR BUSINESS CONTRACTING ENTERPRISES TO SUBCONTRACTORS AND MATERIAL SUPPLIERS; AND**
- **THE MANAGEMENT AGENT TO AGGRESSIVELY AND AFFIRMATIVELY MARKET THE HOUSING TO MINORITY GROUPS.**

**L. COST CERTIFICATION: MSHDA WILL RELY ON THE LIHTC COST CERTIFICATION AND WILL NOT REQUIRE A SEPARATE COST CERTIFICATION FOR PRESERVATION TRANSACTIONS.**

**M. Loan Management:** MSHDA's Office of Asset Management monitors a development's operations for compliance with controlling loan documents and its financial and physical condition through a variety of reporting systems. These systems include electronic submission of monthly income and expense statements, review and approval of annual budgets and audits, approval of the use of reserves, and other required reports. A development's compliance with resident income eligibility, rental restrictions, and physical inspections is monitored by MSHDA's Compliance Division.

**N. Unique Circumstances:** Developers are encouraged to discuss unique preservation opportunities not within the above described parameters with MSHDA Multifamily Development staff to determine the potential for waiver of certain of these parameters.

**O. INACTIVE APPLICATIONS:**

**A HOUSING DEVELOPMENT OFFICER, IN CONSULTATION WITH THE MSHDA DEVELOPMENT MANAGER AND DIRECTOR OF MULTIFAMILY DEVELOPMENT WILL DETERMINE AN APPLICATION TO BE INACTIVE AND PLACE IT IN THE "INACTIVE" PIPELINE IF THE SPONSOR IS UNABLE TO SUBMIT MATERIALS REQUIRED FOR CONTINUED PROCESSING IN A TIMELY MANNER (GENERALLY, 30 DAYS FROM THE REQUEST FOR SUCH MATERIALS). ADDITIONALLY, SPONSORS MAY REQUEST THAT AN APPLICATION BE MADE "INACTIVE" FOR ANY REASON.**

**WHEN AN APPLICATION IS PLACED IN "INACTIVE" STATUS, IT LOSES ITS INTEREST RATE LOCK. THE INTEREST RATE FOR AN "INACTIVE" APPLICATION WILL BE DETERMINED UPON RE-ACTIVATION. AN "INACTIVE" STATUS DOES, HOWEVER, ACT AS A PLACEHOLDER FOR THE MARKET. AS**



**Preservation Parameters (non-Section 8 or 236)**  
(Tax-exempt)

LONG AS AN APPLICATION IN THE "INACTIVE" PIPELINE, NO NEW APPLICATION FOR THE SAME DEVELOPMENT TYPE WILL BE CONSIDERED FOR THIS MARKET, WITHOUT THE SPONSOR OF THE INACTIVE APPLICATION FIRST HAVING A CHANCE TO RESOLVE THE INACTIVE STATUS.

PRESERVATION FUNDS WILL NOT BE HELD FOR APPLICATIONS IN THE INACTIVE PIPELINE.

UPON RECEIPT OF ANOTHER, NEW APPLICATION IN THE SAME MARKET AREA, MSHDA WILL IMMEDIATELY NOTIFY BOTH THE NEW APPLICANT AND THE SPONSORS OF ANY INACTIVE APPLICATION(S) IN THAT MARKET AREA. SPONSORS WITH AN APPLICATION IN THE "INACTIVE" PIPELINE MUST:

- NOTIFY MSHDA IN WRITING THAT THEY WISH TO ACTIVATE THE APPLICATION WITHIN FOURTEEN DAYS OF THE DATE OF THE NOTICE, AND
- SUBMIT ALL OUTSTANDING DOCUMENTATION REQUIRED FOR PROCESSING WITHIN THIRTY (30) DAYS OF THE DATE OF NOTICE.

IF THE SPONSOR SATISFIES BOTH OF THESE CONDITIONS, THE APPLICATION WILL BE REACTIVATED. IF THE SPONSOR FAILS TO SATISFY EITHER OF THE CONDITIONS ABOVE, THE "INACTIVE" APPLICATION BECOMES VOID AND THE NEW APPLICATION WILL BE REVIEWED. THE SPONSOR OF THE NEW APPLICATION WILL BE NOTIFIED OF THE HOLD ON THEIR APPLICATION, PENDING DISPOSITION OF THE INACTIVE APPLICATION AND MAY CHOOSE TO BE PLACED IN THE INACTIVE PIPELINE UNTIL THE COMPETING APPLICATION HAS RECEIVED MORTGAGE LOAN COMMITMENT.

THE MAXIMUM AMOUNT OF TIME ANY APPLICATION WILL BE CONSIDERED "INACTIVE" IS SIX (6) MONTHS FROM THE DATE IT BECOMES INACTIVE. AFTER SIX (6) MONTHS, THE APPLICATION WILL BE REMOVED AND CONSIDERED VOID.

TO ACTIVATE AN APPLICATION PREVIOUSLY CONSIDERED "INACTIVE", THE SPONSOR MUST SUBMIT WRITTEN INTENT TO MSHDA. ALL REQUIRED DOCUMENTATION MUST BE SUBMITTED WITHIN 30 DAYS OF THE DATE OF THIS LETTER OF INTENT OR THE APPLICATION IS VOID. NO ADDITIONAL FEES ARE REQUIRED TO ACTIVATE AN APPLICATION; HOWEVER, MSHDA MAY, AT ITS SOLE DISCRETION, DECLINE TO ACTIVATE ANY APPLICATION AND/OR MAY REMOVE ANY APPLICATION FROM ITS PIPELINE.

**V. FOR MSHDA-FINANCED LOANS ONLY:**

- A. REPAYMENT OF EXISTING INDEBTEDNESS:** ALL REPAYABLE SUBSIDY LOANS, DEFERRED INTEREST, HOME, PRESERVATION FUND, OR OTHER SECONDARY FINANCING, SUCH AS SMALL SIZE, SECURITY, AND AMENITY LOANS ARE TO BE REPAID UPON REFINANCING. ASSUMPTION OF THESE LOANS IS NOT ANTICIPATED, NOR IS FURTHER SECONDARY FINANCING AVAILABLE TO ADDRESS THIS INDEBTEDNESS.

**Preservation Parameters (non-Section 8 or 236)**  
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- B. REPLACEMENT RESERVE DRAWS: REPLACEMENT RESERVE DRAWS WILL NOT BE PROCESSED SUBSEQUENT TO A PRESERVATION LOAN APPLICATION, WITHOUT NOTIFICATION TO MSHDA'S MULTIFAMILY DEVELOPMENT DIVISION.**

## Preservation Fund Parameters



April 26, 2006 **SEPTEMBER 26, 2007**

These parameters describe the Preservation Fund, which is a source of funds available to support the preservation of Michigan's federally assisted rental housing. This housing stock currently serves Michigan's lowest income citizens, was typically built between 1974 and 1985, and is in need of rehabilitation and preservation.

MSHDA is offering tax-exempt and taxable preservation lending to extend the affordability, viability, and livability of this existing rental housing for a minimum of 35 years. A Preservation Fund loan may be available as additional gap financing for eligible developments in the event the Authority determines the transaction will not adequately address unmet physical needs. When a Preservation Fund loan is provided, affordability restrictions will apply for ~~50~~ **90** years. Financing is provided based on the extent to which the following objectives are met:

1. The rehabilitation addresses physical needs of the property, including those directly related to the enhancement of resident livability and functionality.
2. Significant low-income targeting is achieved or current income targeting is maintained.
3. The loan will be a long-term earning asset.
4. The longest possible term of affordability is achieved.
5. The transaction uses the least amount of Preservation Fund loan necessary or contributes resources to the Preservation Fund.

**Eligible Developments:** Any Section 8, Section 236, Section 202, RD Section 515, expiring 4% LIHTC, or other MSHDA-financed rental development in Michigan is eligible to apply for a new MSHDA direct tax-exempt or taxable loan.

**Preservation Fund Loan Rate and Term:** In the event the Authority determines the new financing transaction will not adequately address unmet physical needs, a Preservation Fund (PF) loan may be available at 3% simple interest. ~~Monthly payments based on a 50-year amortization will be due until the end of the first mortgage. At the end of the first mortgage term, the outstanding balance of the PF loan, including accrued interest, will become the new first mortgage and begin amortization with monthly mortgage payments equal to the payments under the original first mortgage.~~

**IF LESS THAN 40% OF THE ALLOWABLE DEVELOPER FEE IS DEFERRED, MONTHLY PAYMENTS BASED ON A 50-YEAR AMORTIZATION WILL BE DUE UNTIL THE END OF THE FIRST MORTGAGE. AT THE END OF THE FIRST MORTGAGE TERM, THE OUTSTANDING BALANCE OF THE PF LOAN, INCLUDING ACCRUED INTEREST, WILL BECOME THE NEW FIRST MORTGAGE AND BEGIN AMORTIZATION WITH MONTHLY MORTGAGE PAYMENTS EQUAL TO THE PAYMENTS UNDER THE ORIGINAL FIRST MORTGAGE, WITH THE BALANCE OF**

## Preservation Fund Parameters

**PRINCIPAL AND ALL INTEREST DUE AT THE EARLIER OF SALE OF THE DEVELOPMENT, REFINANCING OF THE MORTGAGE LOAN OR 50 YEARS AFTER CLOSING.**

If ~~more than~~ 40% **OR MORE** of the allowable developer fee is deferred, the developer has two ~~Preservation Fund loan~~ options:

1. Interest will accrue, but PF loan amortization may be deferred until the deferred developer fee has been paid, but no later than the end of the 12<sup>th</sup> year. Beginning ~~in~~ **AT the 13<sup>th</sup> year, EARLIER OF THE YEAR IN WHICH THE DEVELOPER FEE HAS BEEN PAID IN FULL OR IN THE 13<sup>TH</sup> YEAR FROM THE DATE OF INITIAL DISBURSEMENT OF THE MORTGAGE LOAN,** annual payments will be made **PAYABLE** from **TWENTY-FIVE PERCENT OF ANY SURPLUS CASH** available **FOR DISTRIBUTION TO THE OWNER,** ~~cash flow,~~ applied first to accrued interest, then to current interest and principal, **WITH THE BALANCE OF PRINCIPAL AND ALL INTEREST DUE AT THE EARLIER OF SALE OF THE DEVELOPMENT, REFINANCING OF THE MORTGAGE LOAN OR 50 YEARS AFTER CLOSING.**
2. If the developer **OWNER** agrees to contribute at least 3% of the allowable developer fee to the Resident Services Fund, MSHDA will allow a PF loan sufficient to reduce the deferred developer fee to 30%. Interest will accrue, but PF loan amortization may be deferred until the deferred developer fee has been paid, but no later than the end of the 12<sup>th</sup> year. Beginning ~~in~~ **AT the 13<sup>th</sup> year EARLIER OF THE YEAR IN WHICH THE DEVELOPER FEE HAS BEEN PAID IN FULL OR IN THE 13<sup>TH</sup> YEAR FROM THE DATE OF INITIAL DISBURSEMENT OF THE MORTGAGE LOAN,** annual payments will be made **PAYABLE** from **TWENTY-FIVE PERCENT OF ANY SURPLUS CASH** available **FOR DISTRIBUTION TO THE OWNER,** ~~cash flow,~~ applied first to accrued interest, then to current interest and principal, **WITH THE BALANCE OF PRINCIPAL AND ALL INTEREST DUE AT THE EARLIER OF SALE OF THE DEVELOPMENT, REFINANCING OF THE MORTGAGE LOAN OR 50 YEARS AFTER CLOSING.**

At the end of the first mortgage term, the outstanding balance of the PF loan, including accrued interest, will become the new first mortgage and begin amortization with monthly mortgage payments equal to the payments under the original first mortgage, **WITH THE BALANCE OF PRINCIPAL AND ALL INTEREST DUE AT THE EARLIER OF SALE OF THE DEVELOPMENT, REFINANCING OF THE MORTGAGE LOAN OR 50 YEARS AFTER CLOSING.** Affordability restrictions apply for ~~50~~ 90 years.

**IF THE AUTHORITY AUTHORIZES AN INTEREST RATE DEFERRAL ON ITS FIRST MORTGAGE LOAN, THE DEFERRED INTEREST SHALL BE REPAID ANNUALLY, USING THE REPAYMENT TERMS NOTED ABOVE FOR THE PRESERVATION FUND LOAN. ALL DEFERRED INTEREST ON THE FIRST MORTGAGE WILL BE DUE AND PAYABLE ON THE MATURITY DATE OF THE FIRST MORTGAGE. NO ANNUAL DEBT SERVICE WILL BE DUE ON THE PRESERVATION FUND LOAN WHILE THE FIRST MORTGAGE IS OUTSTANDING, BUT AT THE END OF THE FIRST MORTGAGE TERM, THE OUTSTANDING BALANCE OF THE PRESERVATION FUND LOAN, INCLUDING ACCRUED INTEREST, WILL BECOME THE NEW FIRST MORTGAGE AND BEGIN AMORTIZATION WITH MONTHLY MORTGAGE PAYMENTS EQUAL TO THE PAYMENTS UNDER THE ORIGINAL FIRST MORTGAGE, WITH THE BALANCE OF PRINCIPAL AND ALL INTEREST DUE**

## Preservation Fund Parameters

**AT THE EARLIER OF SALE OF THE DEVELOPMENT, REFINANCING OF THE MORTGAGE LOAN OR 50 YEARS AFTER CLOSING. AFFORDABILITY RESTRICTIONS APPLY FOR 90 YEARS.**

**Source of Preservation Fund:** The source of funding for the Preservation Fund ~~will be~~ **IS** preservation income received from preservation transactions subsequent to June 30, 2005 involving MSHDA-financed developments. These funds will be held in a separate fund and segregated from other funds of the Authority. Both interest income and principal will be available for loans. Funds not disbursed in a fiscal year may be available for disbursement in a subsequent year. The Preservation Fund will be evaluated at the end of FY 2008.

**Preservation Fund Limitations:** Preservation Fund loans will be limited to funding available in the Fund. The Preservation Fund's current balance is \$7,200,000 **\$8,900,000**. Preservation transactions will also be limited by the availability of bond cap for the first mortgage loans.

**Resident Services Fund:** This fund will be administered by a 501c3 non-profit created for this purpose or another entity, as approved by MSHDA, for the purpose of funding services such as youth development activities, job training and placement, service coordinators in senior housing, child care services, or other services determined to be necessary and appropriate resident services. Any affordable rental housing development in Michigan is eligible to apply for funding from the RSF.

**Ownership of Reserves:** Applicants must affirm MSHDA's ownership of excess reserves not otherwise controlled by HUD or Rural Development.

**Processing:** Proposals for funding will be written to comply with MSHDA's direct lending preservation parameters as may be established from time to time and published on MSHDA's Web site. MSHDA direct lending preservation loans, including those with Preservation Fund loans, will generally be processed within 6 months of application. **AN EXPEDITED PROCESSING OPTION IS AVAILABLE UPON REQUEST.**